

Tata Motors: Acquisition of Jaguar & Land Rover

What lies ahead: Digging deeper for answers



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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

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TAMO. BO (BUY, TP Rs 920): We remain +ve at current valuations

WHY Tata Motors (TAMO) bought Jaguar & Land Rover (JLR)

- Its purchase of JLR is part of Tata Group's ongoing strategy of internationalisation.

WHERE could this lead to?

- TAMO can leverage group-wide competencies in various companies such as TACO, TCS, Corus & Tata Technologies to manage JLR

HOW will it impact TAMO's financials?

- Headline Debt/Equity increases to 2x, interest coverage at 5x remains reasonable. Consolidation of vehicle finance biz skews leverage
- We estimate proforma PBT to fall by 5-10% in FY09E

WHAT are the current valuations?

- At Proforma EV/Sales of 0.5x & P/E of 6.5, TAMO is trading inline to a modest discount to global peers

TAMO's funding options

- It holds \$400m of Tata Steel. Further stake sales/demerger of vehicle finance biz are among the options available

JLR – One more step towards a Global Footprint

The TATA group has steadily globalised through big-ticket M&A deals

- Tata Tea acquired Tetley (2 x its size) in 2000 (GBP 270 mn)
- Tata Communications acquired Tyco & Teleglobe (1x it size) in 2005/6 (\$ 400mn)
- Tata Steel acquired Corus (3 x its capacity) in 2007 (\$ 12.4bn)
- Tata Power acquired 30% in 2 assets of PT Bhumi in Indonesia in 2006 (\$ 1.1 bn)

TAMO itself has followed a well-caliberated strategy of internationalisation

- Acquired the bankrupt truck business of Daewoo in 2004 for \$ 102mn
- Stake in Hispano Carrocera and JV with Marcopolo for manufacture of buses (2005/6)
- MoU with with FIAT (2005)
 - JV in India to produce cars and powertrains and sharing distribution network (2007)
 - Ratan Tata is on the international Board of FIAT
- Acquisition of Jaguar and Land Rover from FORD (2008)

Cost synergies – Material costs and not manpower key to better margins

Investors concerns on manpower costs misplaced

- Investors apprehensive that TAMO has agreed to continue with plants in UK

Purchasing basket offers bigger opportunity for cost reduction

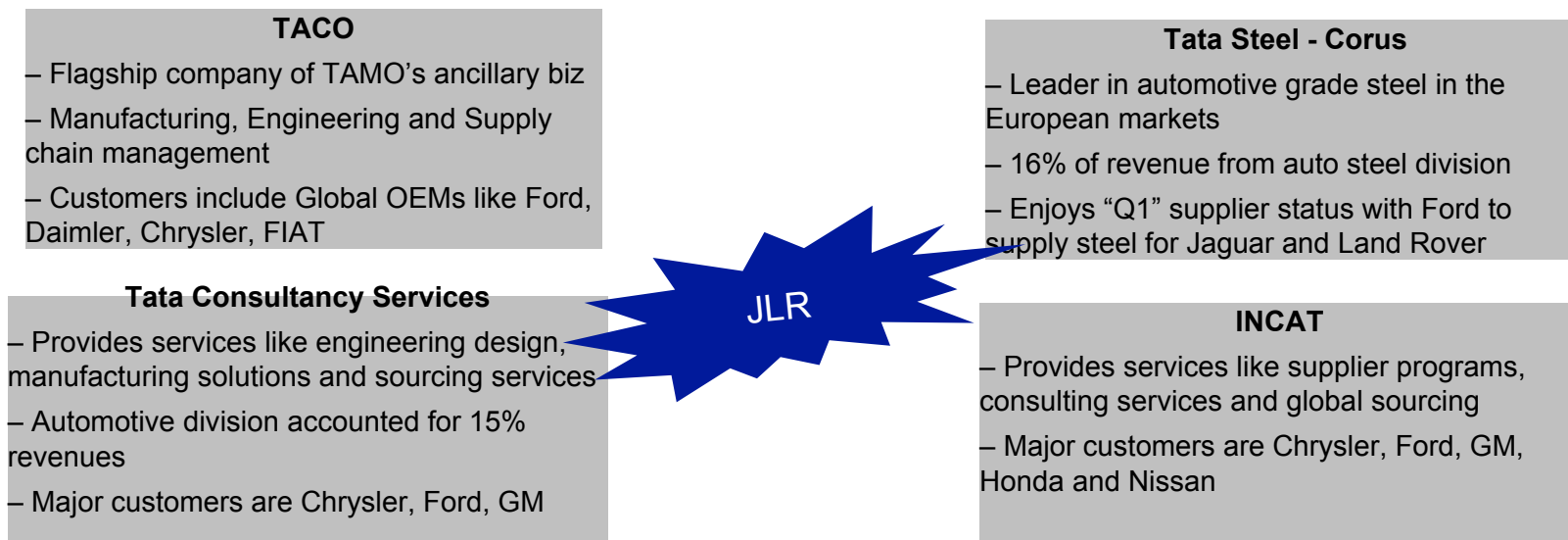
- It is more important to manage the material & sourcing costs to improve margins
- Material Cost is 4-6x the wage cost for high-end products such as Land Rover

	Land Rover		Jaguar		Jaguar + Land Rover	
In GBP	2005	2006	2005	2006	2005	2006
Material Cost/car	20,254	21,243	16,299	16,928	18,919	19,976
Employee Cost/car	2,565	2,444	4,316	4,706	3,156	3,108
GBP/\$	1.82	1.84	1.82	1.84	1.82	1.84
% of sales						
Material Cost	84.5%	85.4%	112.8%	106.6%	91.7%	90.3%
Employees	9.6%	8.9%	24.3%	23.9%	13.4%	12.4%

Source: Companies

Cost synergies – Tata Group has multiple levers

- **Tata Auto Comp (TACO) - TATA group has a rich ecosystem of JVs with leading players in Auto ancillary space held through TACO (Slide 18 for Details)**
- **TCS, Corus and Tata Technologies have varied competencies in the Auto space**
- **We believe an improvement of 50-70bps in EBITDA margin possible in JLR over the next 2 years (current EBITDA margin)**
 - We estimate CY2007 EBITDA margin of JLR at around 6.5%
 - This could make the acquisition PAT accretive in CY2009/FY10E



Revenue synergies – A long-term possibility

- **Revenue synergies limited in the medium term (2-3 years)**
 - In the long-run Tata Group and Tata Motors' footprint in South-East Asia should help Jaguar/Land Rover diversify their geographic dependence from US (30% of volumes) and Western Europe (55% of volumes)

(Nos)	2005	2006	2007	
Jaguar	86,651	72,680	57,578	
Western Europe	46,789	41,367	33,024	57%
America	32,131	22,136	16,836	29%
Rest of Word	7,731	9,177	7,718	13%
Land Rover	170,156	174,940	202,609	
Western Europe	97,303	95,399	109,785	54%
America	51,634	53,638	57,092	28%
Rest of Word	21,219	25,903	35,732	18%
Total	256,807	247,620	260,187	
Western Europe	144,092	136,766	142,809	55%
America	83,765	75,774	73,928	28%
Rest of Word	28,950	35,080	43,450	17%

Source: JD Power

TAMO: Financial Impact & Valuation of acquisition

We have assumed a stress case scenario

- Total acquisition cost at \$3bn assumed to be debt-funded on TAMO's books
- We have not considered any asset sales in our calculations (though very likely, slide 13)

Financial Impact: Leverage increases but coverage ratios reasonable

- Headline Debt/Equity of TAMO would increase to 2.5x from 1x
- Excluding the vehicle finance biz, leverage would go to 1.2x
- EBITDA/Interest remains at 5.0

Valuation: TAMO is trading inline/modest discount to global peers

- EV/Sales (1-yr forward) of 0.5x against 0.4x for global peers
- P/E (1-yr forward) of 6.5x against 8.5x for global peers

Please see next few slides for Valuation & Proforma Financials

TAMO + JLR: Leverage and Valuation ratios

Financial Stability ratios	CY2007/FY08E		
	TAMO (\$ m)	Consolidated (\$ mn)	
Net Debt	2,664	5,664	This debt includes \$3bn raised for acquisition
Net Debt - excluding vehicle finance biz	(271)	2,729	TAMO auto biz is currently minimally leveraged -if we net off the vehicle financing receivables against its Net Debt.
Net Debt/Equity	1.15	2.45	On a consolidated basis, the TAMO's leverage looks adverse – however coverage ratios are still reasonable.
Net Debt/EBITDA	2.23	2.66	
EBITDA/Interest	8.56	5.24	
(Ex- Financial Services)			
Net Debt/Equity	(0.12)	1.18	If TAMO separates the vehicle financing business from its current operations, the resultant balance sheet will have reasonable leverage. Note that we have taken a stress case as we have assumed the acquisition to be debt-financed on TAMO's books
Net Debt/EBITDA	(0.23)	1.32	
EBITDA/Interest	8.13	5.09	
Proforma Valuations (TAMO + JLR)			
Share price		630	
O/S shares		385	
Mkt cap (\$m)		6,070	
Net Debt (\$m)		5,664	This debt includes \$3bn raised for acquisition
EV (\$m)		11,735	
EV/Sales (1-yr forward)		0.48	The current valuations are inline or discount to global peers
EV/EBITDA (1-yr forward)		5.5	
P/E (1-yr forward)		6.65	

Source: Company, Deutsche Bank estimates

TAMO: Global peer group valuation comparison

Company	PER		PBV		EV/Sales		EV/EBITDA	
	CY07/FY08E	CY08E/FY09E	CY07/FY08E	CY08E/FY09E	CY07/FY08E	CY08E/FY09E	CY07/FY08E	CY08E/FY09E
BMW	8.8	8.2	1	0.9	0.4	0.3	2.8	2.5
Daimler	9	7.7	1.5	1.2	0.4	0.3	2.9	2.5
Fiat	9.7	7.5	1.8	1.3	0.4	0.3	3.7	2.7
Ford Motor	NM	NM	3.7	NM	0.1	0.1	-0.6	1.6
Honda Motor	7.5	7.7	1	0.9	0.3	0.3	2.7	2.4
Hyundai Motor	10	9.1	1	0.9	0.5	0.5	5.5	4.9
Nissan Motor	6.9	7.5	0.8	0.8	0.3	0.3	2.5	2.5
Volkswagen AG	19.3	15.7	3.1	2.7	0.7	0.7	5.0	4.7
Toyota Motor	8.6	8.6	1.2	1.1	0.5	0.5	3.8	3.8
Renault SA	6.4	5.8	0.8	0.7	0.2	0.2	2.2	1.8

Source: Deutsche Bank estimates

TAMO + JLR: Proforma P&L

Proforma P&L (\$ m)	CY2008/FY09E				CY2009/FY10E				
	TAMO	JLR	SPV	Conso	TAMO	JLR	SPV	Conso	
\$ m									
Sales	10,210	14,214	-	24,424	12,001	14,214	-	26,215	JLR is bigger than
Cost synergies	-	-	-	-	-	71.1	-	-	We have assumed a 50bps improvement in JLR's operating margins in CY2009
EBITDA	1,196	935	-	2,131	1,494	1,006	-	2,500	
EBITDA margin	11.7%	6.6%		8.7%	12.4%	7.1%		9.5%	
Depreciation	218	699	-	917	259	699	-	958	We have assumed \$700m of the bridge loan to injected into JLR has operating cash and hence we assumed the interest cost of that debt in JLR's books
Interest	140	42	-	182	149	42	-	191	
Other income	105	-	-	105	113	-	-	113	
Pre Tax Profit	944	194	-	1,138	1,198	265	-	-	FORD has indicated that JLR is profitable at PBT level
Interest cost of acquisition	-	-	225	225	-	-	225	225	We have assumed the entire bridge loan to be converted to long-term debt of \$3bn as a stress case scenario and taken the appropriate interest cost
Proforma Pre-tax Profit	944	194	(225)	913	1,198	265	(225)	1,239	
Impact on TAMO FY09E PBT	-3%	-	-	-	3%	-	-	-	The impact of TAMO's proforma PBT could be between 5-10%

Source: Deutsche Bank estimates

TAMO + JLR: Proforma Balance Sheet (CY2007/FY08E)

(\$ m)	TAMO (\$ m)	JLR (\$ m)	Consolidated	
Net Tangible assets	2,510	2,246	4,756	
Net Intangible Assets	111	2,010	2,121	
Vehicle Financing receivables	2,935		2,935	
Net Current Assets	(56)	(107)	537	We have assumed TAMO will put \$700m as operating cash in JLR on consolidation in JLR. Hence the NCA of TAMO & JLR do not add up
Cash & eqv	638	-	638	The cash equivalents includes shares of Tata Steel worth \$400m held at cost of \$50m
Trade Investments	233	-	233	
Pension Assets	-	696	696	
Other Assets	3	297	300	
Total Assets	6,373	5,142	12,215	
Warranty Liabilities & Other provisions	489	2,667	3,156	
Pension Liabilities	-	19	19	
Def Tax Liability	238	-	238	
Shareholders' equity	2,314	2,456	2,314	Since the acquisition cost (\$2.3bn) is less than Net asset value of of JLR, there is capital asset instead of goodwill
Capital Asset	-	-	156	
Minority Interest	30	-	30	
Debt	3,302	-	6,302	We have assumed \$3bn acquisition debt of which \$2.3b is used for paying Ford and the balance as operating cash in JLR
Total Liabilities	6,373	5,142	12,215	

Source: Company, Deutsche Bank estimates



TAMO + JLR: Proforma Cashflow (CY2008/FY2009E)

Proforma Cashflow (\$ m)	TAMO	JLR	SPV	Consolidated	
Cash Profit	949	893	(225)	1,617	
Chg in operating Working Capital	238	(256)		(18)	TAMO has a robust working capital management in its auto biz. Inventory and receivable days at around 30 & 9 respectively and creditors at around 40 days
Cashflow from operating activities	1,187	637	(225)	1,599	
Increase in Vehicle loan receivables	(776)			(776)	The vehicle loan receivables skew the reported working capital picture as they are shown as part of working capital under Indian GAAP
Capex	(813)	(635)		(1,447)	We estimate operating cashflow from auto biz largely covers TAMO's auto capex . Currently it would be free cashflow neutral to modest +ve.
Trade investments	(38)			(38)	
Chg in associates	16			16	
Cashflow from Investing activities	(834)	(635)	-	(1,469)	
Chg in minorities	(30)			(30)	
Chg in debt	949		3,000	3,949	
Dividend	(154)			(154)	
Cashflow from financing activities	766	-	3,000	3,766	
Chg in cash	343	3	2,775	3,120	
Operating Cashflow - Capex	337	3	(225)	115	We estimate that JLR has a +ve pretax cashflow

Source: Deutsche Bank estimates

Funding: We highlight a few possibilities for TAMO

■ Sale of Tata Steel Shares

- TAMO holds \$400m worth of Tata Steel shares (4.3% of outstanding shares)
- Tata group holds 33.7% in Tata Steel leaving room for some reduction in group stake

■ Stake sale / IPO of Telcon, HV Axles, HV Transmissions

- We value Telcon at around \$1bn (13xFY09E EPS); TAMO holds 60% stake in it
- HV Axles and HV Transmissions are 100% owned by TAMO (est value \$200-250m)

■ Sale of Vehicle Finance business (Tata Motor Financial Services Ltd)

- Since 3QFY07, TAMO's incremental vehicle finance biz is housed in this subsidiary
- We estimate total loan receivables (TMFSL + TAMO) at cRs 120bn by end-FY08E
- Any sale of veh finance biz will significantly de-lever TAMO's balance sheet
- Tata group has recently floated a new company called Tata Capital with a mandate which includes Vehicle Financing

■ We also do not rule out an LBO structure to finance the purchase

- We estimate JLR EBITDA at around \$1bn against capex of \$600-700m
- This leaves excess cashflow to service atleast \$1bn of debt



Annexures

Valuation & Risks

Valuation

Our primary valuation methodology to value TAMO is DCF as the maturity of the sector provides a fair degree of predictability on cashflows and avoids the pitfalls of relative multiples during inflection points in a cyclical sector. Our target price is Rs920/share (Rf 7.2%, Risk prem 4.5%, CoE 12.6%, Kd 9%, WACC 10.9% & 4% terminal growth rate). This translates into 15x FY09E EPS. We have not valued TAMO's stakes in Tata group companies as the value is unlikely to accrue to minority shareholders in the medium-term.

Risk

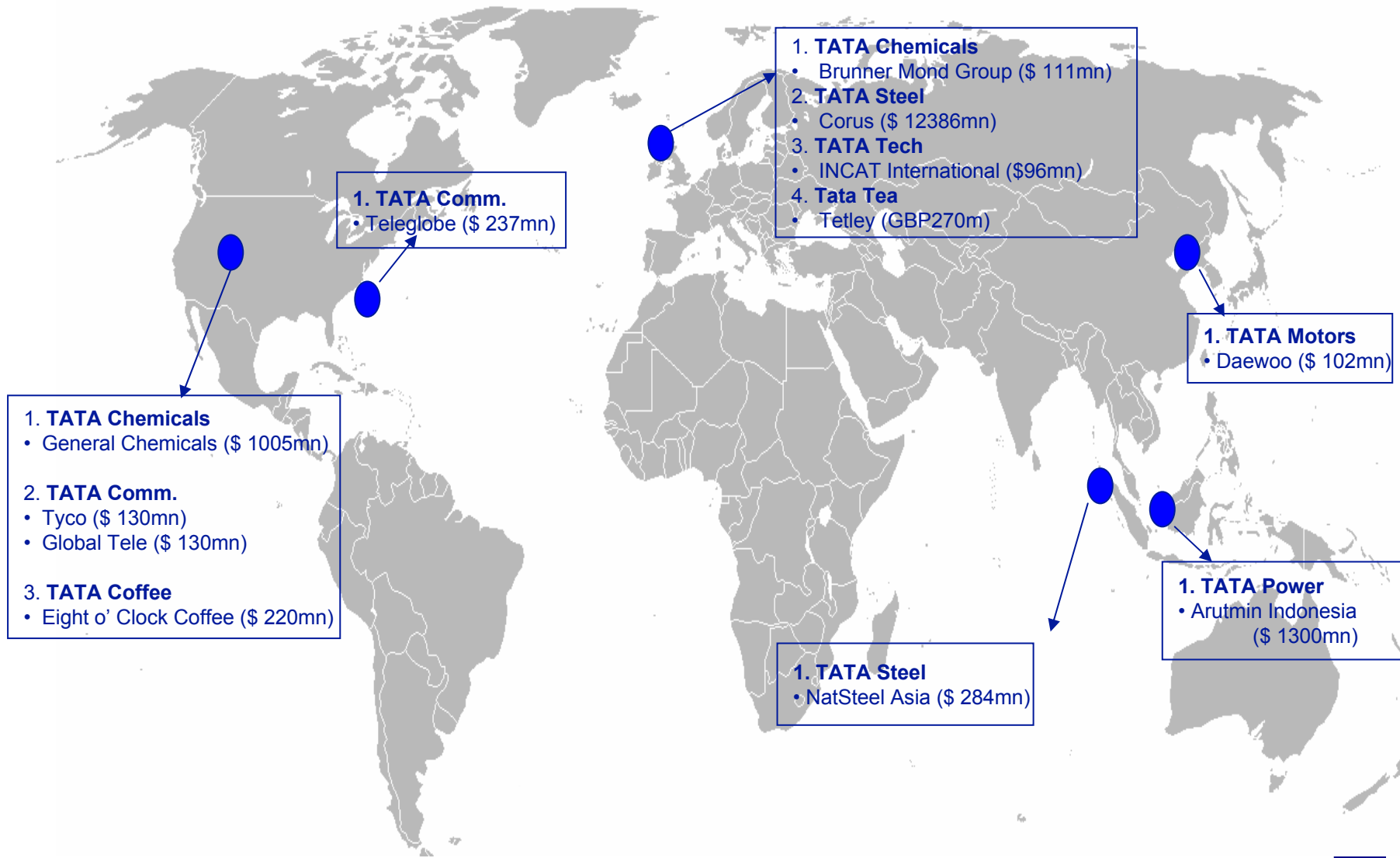
Key risks include failure to execute new platforms on-time & cost and market-place success of the new products. The Indian auto-sector is witnessing the entry of global majors across all product segments. Hence, TAMO's revamp of its product slate is critical to its sustainable growth over the long term. Adverse movements in macro variables remain a key downside risk though we have factored a slowdown in our estimates. TAMO is the 'canary in the coal mine' of Indian economy and hence macro variables have a significant impact on stock's risk perception and valuation.

Tata Motors: Key assumptions for India business

TAMO volume assumptions						
(Nos)	FY06	FY07	FY08E	FY09E	FY10E	CAGR(FY08-10E)
MHCVs	136,851	185,048	179,497	193,856	213,242	9.0%
<i>YoY growth</i>	<i>1.1%</i>	<i>35.2%</i>	<i>-3.0%</i>	<i>8.0%</i>	<i>10.0%</i>	
LCVs	108,084	149,248	179,098	205,962	236,857	15.0%
<i>YoY growth</i>	<i>46%</i>	<i>38%</i>	<i>20%</i>	<i>15%</i>	<i>15%</i>	
MUVs	39,781	49,526	54,479	59,926	63,522	8.0%
<i>YoY growth</i>	<i>7%</i>	<i>24%</i>	<i>10%</i>	<i>10%</i>	<i>6%</i>	
Cars	169,103	195,408	195,408	224,719	247,191	12.5%
<i>YoY growth</i>	<i>11%</i>	<i>16%</i>	<i>0%</i>	<i>15%</i>	<i>10%</i>	
Small car					100,000	
Total	453,819	579,230	608,481	709,464	860,812	18.9%
<i>YoY growth</i>	<i>14%</i>	<i>28%</i>	<i>5%</i>	<i>17%</i>	<i>21%</i>	

Source: Company, Deutsche Bank estimates

TATA Group – Select International acquisitions



Source: Companies

TAMO's path to a transnational company

- Acquisition of Daewoo's truck business (2004)
 - South Korea's 2nd largest truck manufacturer with a capacity of 20,000 units
- 21% stake in Hispano Carrocera, a Spanish bus manufacturer(2005)
- JV with MarcoPolo of Brazil (2006) to manufacture buses and coaches
- JV with Thonburi Automotive (2006) to build pick-ups
- Relationship with FIAT
 - JV in 2006 to produce both Fiat & Tata cars and Fiat powertrains for Indian and overseas markets
 - TAMO distributes FIAT branded cars in India
 - In 2007, TAMO and Fiat licensed Tata's pick-up platform to be sold in Latin America
 - *Ratan Tata is on the Board of FIAT SpA.*
- Assembly operations in Malaysia, Kenya and Russia

TAMO's international operations contribute 18% of its revenues

Tata AutoComp – Nurturing an eco-system

- Partners with global and Indian vendors to supply auto components globally.
- The company operates in three diversified Business Groups namely Manufacturing, Engineering and Supply chain management

Products	Partners
Seating Systems	Johnson Controls
Interiors and Exteriors, Air Vents	Faurecia (TA)
Wiring Harness	Yazaki Group
Mirrors and Cables, Gear Shifters	Ficosa
Plastic Fasteners	Nifco
Chassis Springs, Stabilizer bars	Chuo Hatsujo
Stampings and Assemblies	TACO Owned
Stampings and Assemblies	SungWoo
Sheet Moulded Composites (SMC)	Owens Corning Menzolit-Fibron
Exhaust Systems, Canning of Catalytic Converters, Brake Disc	Yutaka Giken
Braking System for commercial vehicles	Knorr Bremse
Vehicle Tracking System	Mobi Apps
Lighting System and Engine Induction System	Visteon

Source: Company

Corus, Tata Steel & Tata technologies – more levers for Tata Group

Tata Steel – Corus: Leader in automotive grade steel in European Markets

- 16% of Corus's revenues are derived from automotive business.
- Enjoys "Q1" supplier status with Ford to supply steel for Jaguar and Land Rover supplying 30,000 tonnes of steel/yr

Tata Consultancy Services

- The automotive industry accounted for 15.1% of TCS's revenues in FY07.
- TCS offerings to automotive clients
 - Automotive engineering design and manufacturing solutions
 - Automotive electronics and embedded systems
 - Automotive shop floor services
 - Automotive sourcing and procurement services.
 - Product Lifecycle Management (PLM).
 - Major clients include Chrysler, Ford, GM, Johnson Controls

Tata Technologies – INCAT

- Key services to automotive companies
 - Supplier programs
 - Consulting services
 - Global sourcing
 - Major customers: Chrysler, Ford, GM, Honda and Nissan

Jaguar – Land Rover’s pension status in 2006

- Combined pension deficit as on Dec-06 was GBP 200mn (c\$400 mn)
- However under the current deal covenants, FORD is investing \$600 of the sale proceeds which would make the planfully funded
- Pension assets in 2006 were invested mainly in equities (71%). Ford’s target for 2007 was to be invested 65% in equities

Assets in the Pension funds (Dec-06)				
GBP mn	Jaguar	Land Rover	Jaguar+LR	Allocation (%)
Equities	1,186	956	2,142	71%
Bonds	357	297	654	22%
Other assets	108	110	218	7%
Total	1,651	1,363	3,014	

Source: Companies

Pension deficit (CTY06)			
GBP mn	Jaguar	Land Rover	Jaguar+LR
Pension assets	1,651	1,363	3,014
Present value of scheme liabilities	(1,801)	(1,434)	(3,235)
Deferred tax asset		21	21
Net Pension deficit	(150)	(50)	(200)

Source: Companies

Shareholding of Tata group in key companies

Company	Mar-06	Mar-07	Dec-07
Tata Steel	27%	30%	33.70%
Tata Power	32.20%	32.20%	33.88%
Tata Motors	33.70%	33.30%	33.40%
Tata Comm	44.25%	50.00%	50.00%
TCS	83.70%	81.70%	77.80%
Tata Tea	28.60%	32.30%	35.40%
Indian Hotels	29.30%	28.30%	29.20%

Source: Bombay Stock Exchange

Appendix I

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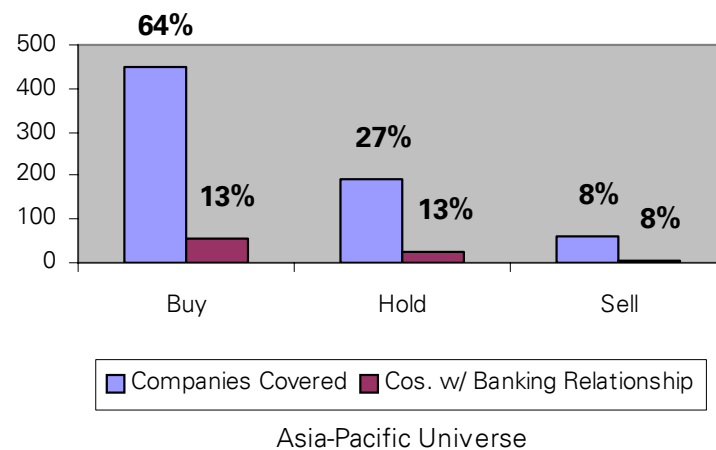
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