Emkay Research

Tata Motors Ltd.

Result Update

Recovery not yet in sight, Maintain SELL

26th June 2009

SELL

Price	Target Price
Rs 340	Rs 225

Sensex –	14,765

Price Performance

(%)	1 M	3M	6M	12M
Absolute	(1)	97	119	(28)
Rel. to Sensex	(5)	34	38	(30)

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	TELC.BO
Bloomberg	TTMT@IN
Equity Capital (Rs mn)	4498
Face Value (Rs)	10
No of shares o/s (mn)	450
52 Week H/L (Rs)	480/122
Market Cap (Rs bn/USD mn)	153/3173
Daily Avg Vol (No of shares)	7161187
Daily Avg Turnover (US$ mn)	41.2

Shareholding Pattern (%)

	31/03/09	31/12/08	30/09/08
Promoters	47.1	47.1	33.3
FII/NRI	23.3	25.1	37.2
Institutions	17.4	16.0	17.4
Private Corp	2.0	2.0	0.8
Public	10.3	9.8	11.2

Source: Capitaline

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Tata Motors' (TML) consolidated results were signficantly below expectations, primarily due to JLR. Against our expectation of net loss of USD 400 mn, the company reported a loss of approximately 800 mn (before adjusting for capitalisation of R&D expenses). Adjusting for capitalisation of R&D expenses, net loss stood at USD 504 mn. *Consolidated adjusted net loss stood at Rs 27 bn of Rs 53 per share (19% of the book value).* For FY10, while we have factored in positive EBIDTA in our assumption, we expect company to report net loss of USD 62 mn (after capitalizing 90% of R&D spend). Also, we expect the business to remain FCF negative in the near to medium term.

The good part is

- ***The pressure on profitability is due to rising subventions (up by 50% since 2HCY08), rather than due to internal inefficiencies. Other expenses as % of sales stood at 26% for JLR.***
- **TML postively surprised us on the cost control initiatives and continuance pf product development programs.**
- **Concerns on the availability of funds to pursue the capex programes have been largely addressed for next 12 to 18 months.**
- **The perfromance of JLR is more dependent on recovery of the industry rather than internal product related improvement**

We maintain our target price of Rs 225 and our SELL rating on the stock. We have valued TML standalone business at Rs 175 per share (3x EV/EBIDTA) and subsidiaries at Rs 50 per share. We have not assigned any value to JLR. At our target price, the stock would trade at P/B of 1x 09consolidated), after factoring in the loss at JLR, which is in line with the trough valuation during 2000-01. *In our P/B calculation we have ignored goodwill per share of Rs 59 due to acquisition of JLR.*

JLR – the concerns are with Land Rover (LR) now

JLR reported net sales of USD 8 bn for 10mFY09. While the concerns at the time of acquisition were with Jaguar (JG), currently, we believe that the key concerns are with LR, largely due to falling volumes. JG has been reporting strong show post the launch of XF and variants of other models. Infact, post the launch of XF, there has been increase in the resale value of JG products in US (source: management).

Retail sales - 10mFY09 (YoY change %)	JG	LR
US	(10.9)	(45.1)
UK	-	(42.5)
EU (ex Russia)	2.4	(44.7)
Russia	40.0	10.8
China	30.0	(2.6)
Total sales	(0.7)	(38.0)
Units sold	**42,300**	**104,000**

Source: Company

Capitalization of R&D spend props EBIDTA at JLR but cash flows under strain

JLR reported negative EBIDTA of USD 190 mn (against our expectation of marginal positive EBIDTA). However reported EBIDTA is after capitalizing almost 90% of the annual R&D spend of USD 657 mn. The management has indicated a recurring R&D spend of £ 400 m (USD 650 mn). *While profits would be higher due to capitalization of R&D spend, we believe that cash flows would be under significant pressure.*

Net loss at JLR of USD 504 mn does not factor in the interest burden in the UK holding company.

The financial performance of JLR for 10mFY09 pertain the operating companies and does not including the interest burden of the holding company (jaguar Land Rover UK) which had a debt burden of USD 2 bn (currently around 1bn)

Other subsidiaries also under pressure

The global meltdown also affected the performance of other key subsidiaries. However, unlike JLR, we expect the other subsidiaries to recover at a faster pace.

	Sales			Net Profits		
Rs m	FY08	FY09	Change %	FY08	FY09	Change %
TDCV	30,700	25,410	(17.2)	1,590	1,110	(30.2)
Telcon	24,110	21,460	(11.0)	3,240	450	(86.1)
TTL	10,840	12,020	10.9	300	660	120.0
HVTL	1,920	1,430	(25.5)	470	190	(59.6)
HVAL	2,000	1,550	(22.5)	630	280	(55.6)
TMLFSL	7,190	8,150	13.4	450	(1,210)	
Subsidiary total	**76,760**	**70,020**	**(8.8)**	**6,680**	**1,480**	**(77.8)**

Valuation and View

While the financials of JLR has been significantly below expectation, the silver lining is that rising subventions in the developed markets affected the profitability. We had an apprehension that due to the transition phase of JLR, TML may not be able to exercise significant cost control and reduce inefficiencies. Also, management has indicated that there is adequate financing for next 12 to 18 months, which should alleviate fears of non availability of funds. However, with around Rs 80 bn of debt due to for refinancing by FY11 and continued capital requirement of USD 650 mn p.a. for product development activities, there would be pressure on the cash flows. While company has indicated capital raising plans through raising equity capital and/or dilution of stakes in subsidiaries, this will put pressure on EPS and return ratios.

We maintain our target price of Rs 225 and our SELL rating on the stock. We have valued TML standalone business at Rs 175 per share (3x EV/EBIDTA) and subsidiaries at Rs 50 per share. We have not assigned any value to JLR. At our target price, the stock would trade at P/B of 1x (consolidated), after factoring in the loss at JLR, which is in line with the trough valuation during 2000-01. *In our P/B calculation we have ignored goodwill per share of Rs 59 on account of acquisition of JLR.*

Key highlights of analyst meet

US and European markets

The market conditions continue to be adverse, especially for large cars/SUVs. However, it seems that worst is behind. What is also affecting demand is the incentive schemes in favour of fuel efficient vehicles across different countries. Over next 12 to 18 months, there is will be higher pressure on LR rather than JG due to general shift in preference towards smaller /fuel efficient cars. *However, history indicates that demand for large cars returns back once the economic environment stabilizes.*

Cost control activities

JLR has been pursuing cost reduction activities and the process will continue. Over the medium term, company is focusing of further shut down of plants, platform rationalization, increased sourcing from emerging markets like India, employee reduction, working capital management. The ultimate objective to bring down the break even levels significantly. The management hinted that current levels of operations can be considered as EBIDTA break even.

Higher levels of subventions/discounts

There has been a significant increase in the competitive intensity since 2HCY08 and the same has not receded. This in turn has affected the resale value of product in the range of 15% to 25%. However, for JG, post the launch of XF, there has been improvement in the resale value of other offering under the brand.

£340 mn loan from European investment bank (EIB)

TML indicated that while they have got the approval from EIB for the loan, they will receive the disbursement only after the loan is guaranteed by either UK government of some of the specified banks as per the terms of the loan. The company is in discussion with UK government for the guarantee. The loan is a soft loan (low servicing burden) and will be received upfront. The objective of the loan is to provide funding for the green technology projects, as part of efforts required to reduce the emission norms.

Pension liabilities

The actuarial valuation of the pension liabilities is due effective April 2009 and shall be done by the trustees by September 2009. The actuarial valuation done by the management for audited accounts indicates that there is marginal surplus. The current obligation stand at USD 3 bn and the value of the pension assets is USD 3.1 bn

Goodwill of USD 650 mn as per Indian GAAP

TML has accounted goodwill of USD 650 mn. Management indicated that Indian GAAP does not recognize the value of brands and IPR. Under IFRS, after adjusting the for fair value of brands and IPR, there is negligible goodwill due to acquisition of JLR.

New product launches

In 2009, the company has already launched new XF and XKR including new power train in January 2009, all new XFR in January 2009, new Freelander with start-stop technology, upgrades of Range Rover, Range Rover Sports and Discovery in April 2009. Also, it is planning to launch all new XJ in July, a new small Range Rover (LRX concept).

Financials

Tata Motors – Consolidated P&L

Rs mn	FY08	FY09	% change*
Net Sales	353,937	703,679	98.8
Operating Expenses			
Raw Materials	243,755	480,556	97.1
% of Sales	68.9	68.3	
Staff Costs	27,452	72,974	165.8
% of Sales	7.8	10.4	
Other Expenses	43,562	137,371	215.3
% of Sales	12.3	19.5	
Forex loss/(gain)	0	0	
EBIDTA	39,168	12,777	-67.4
EBIDTA %	11.1	1.8	
Adj EBIDTA	39,168	12,777	
Adj EBIDTA %	11.1	1.8	
Depreciation	7,821	25,068	220.5
EBIT	31,348	-12,290	
Other Income	2,675	7,990	198.7
Interest	7,431	19,309	159.9
PBT	26,592	-23,610	
Extraordinary inc/(exp)	4,271	2,317	
Tax	8,518	3,358	-60.6
Net Profit	22,344	-24,650	
Net Margin %	6.3	-3.5	
Minority Interest	(1,323)	115	
Profit/(Loss) of associates	652	(518)	
Reported net profit	21,674	(25,053)	
Adj Net Profit	18,582	-27,735	
Net Margin %	5.3	-3.9	
DEPS	42.1	-48.7	
Adj DEPS	36.1	-53.9	

** FY09 numbers are not comapreable with FY08 due to JLR*

JLR - P&L abstract – ex UK Holding company (Jaguar Land Rover Ltd)

	10mFY09	10mFY09	FY10E
	£ mn	USD mn	USD mn
Net Sales	4,949	8,125	9,057
Operating Expenses			
Raw Materials	3,164	5,195	5,706
% of Sales	63.9	63.9	63.0
Staff Costs	569	934	951
% of Sales	11.5	11.5	10.5
R&D expenses	400	657	657
% of Sales	8.1	8.1	7.3
Other Expenses	1,282	2,105	2,139
% of Sales	25.9	25.9	23.6
EBIDTA	-466	-765	-396
EBIDTA %	-9.4	-9.4	-4.4
R&D exp capitalised	*350*	*575*	*591*
% of Sales	*7.1*	*7.1*	*6.5*
Adj EBIDTA	*-116*	*-190*	*195*
Adj EBIDTA %	*-2.3*	*-2.3*	*2.2*
Depreciation	159	261	250
EBIT	-275	-452	-55
Other Income	24	39	50
Interest	31	51	58
PBT	-282	-463	-62
Extraordinary inc/(exp)	0	0	0
Tax	25	41	0
Net Profit	-307	-504	-62
Net Margin %	-6.2	-6.2	-0.7
EPS	-0.6	-1.0	-0.1
Cash EPS	-0.3	-0.5	0.4

JLR - Balance Sheet abstract – ex UK Holding company (Jaguar Land Rover Ltd)

USD Mn	10mFY09	FY10E
Net worth	959	896
Debt	895	1,445
Total	**1,854**	**2,341**
Fixed Assets	3,509	4,100
Goodwill (Indian GAAP)	660	660
Other Fixed Assets	2,849	3,440
Net Current Assets	-1,735	-1,934
Total	**1,773**	**2,165**
Diff	80	176

Tata Motors – Standalone – Key Financial extracts

Y/E, Mar Rs Mn	Net Sales	EBITDA	EBITDA (%)	PAT	EPS	AROCE (%)	AROE (%)	PE (x)	EV/EBIDTA (x)
FY08	283,920	26,892	9.5	18,010	31.0	22.6	24.5	10.7	6.0
FY09	253,775	17,617	6.9	8,973	9.9	12.8	8.8	33.7	7.8
FY10E	278,231	21,600	7.8	7,356	14.3	4.9	5.7	23.3	7.1
FY11E	312,708	24,996	8.0	9,927	19.3	5.6	7.4	17.3	6.2

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