Tata Motors

**Price Objective Change** BUY

Equity | India | Autos/Car Manufacturers
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Bank of America Merrill Lynch

RESEARCH


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# Expect domestic recovery, JLR to follow

## Maintain Buy, potential upside 30%

Following a Rs 25bn consolidated loss last fiscal, we forecast a strong reversal over next 2 years driven by both domestic business and JLR. We believe that surprises will come from lower costs, especially in JLR, and also the extent of domestic recovery (consensus estimates sharply lower). Our PO of Rs 365 (earlier Rs 420) factors higher debt position, which lowers imputed equity value.

## We expect strong operational growth

We expect consolidated EBITDA to increase to Rs 79.7bn by FY11E (up from Rs 20.1bn last year), driven by (1) demand revival in CV business (trucks/buses/light vehicles), thanks to higher industrial production and government stimuli, (2) sharp cut in JLR losses on significant cost-saving initiatives, and new product launches, and (3) rebound in key subsidiaries, in line with domestic recovery.

## Forecast rising cash flows, JLR to be self sustaining

Despite expected increase in operating cash flows, we expect both Tata Motors and JLR to resort to independent fund raising in FY10E, to finance capex and other operating requirements. However, in FY11E, we expect Tata Motors to generate surplus cash, facilitating debt repayment, and JLR to be self sustaining.

## Revised PO factors additional debt

Our revised sum of parts PO is based on (1) standalone business at 8x EV/EBITDA FY11E, slight premium to previous mid-cycle sector multiple, and (2) JLR at 0.25x EV/Sales FY11E, 30% discount to long term European auto sector average, assuming debt of €2.1bn (incl SPV) and (3) subsidiaries, in line with domestic peers in constituent businesses, with holding company discount of 20%.

### Estimates (Mar)

| (Rs) | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| Net Income (Adjusted - mn) | 21,964 | 20,672 | (23,750) | (4,535) | 26,243 |
| EPS | 56.99 | 53.62 | (46.20) | (8.07) | 46.69 |
| EPS Change (YoY) | 35.2% | -5.9% | NM | 82.5% | NM |
| Dividend / Share | 15.00 | 15.00 | 6.00 | 10.00 | 14.00 |
| Free Cash Flow / Share | (95.69) | 23.83 | (189.15) | (65.71) | 19.21 |
| ADR EPS (US$) | 1.26 | 1.33 | (0.951) | (0.166) | 0.961 |
| ADR Dividend / Share (US$) | 0.332 | 0.372 | 0.124 | 0.206 | 0.288 |

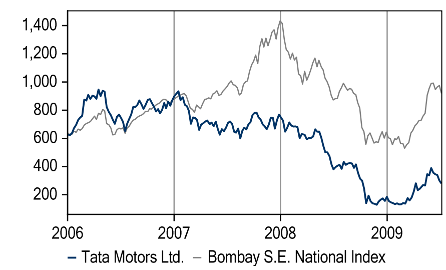
### Valuation (Mar)

| | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| P/E | 4.91x | 5.22x | NM | NM | 5.99x |
| Dividend Yield | 5.36% | 5.36% | 2.14% | 3.57% | 5.00% |
| EV / EBITDA* | 11.69x | 11.36x | 24.18x | 10.41x | 6.09x |
| Free Cash Flow Yield* | -25.64% | 6.39% | -67.59% | -25.67% | 7.50% |

* For full definitions of *iQmethod* SM measures, see page 10.

### Stock Data

| | |
|---|---|
| Price (Common / ADR) | Rs279.85 / US$8.24 |
| Price Objective | Rs420.00 to Rs365.00/ US$12.50 to US$10.50 |
| Date Established | 7-Jul-2009 / 7-Jul-2009 |
| Investment Opinion | C-1-7 / C-1-7 |
| Volatility Risk | HIGH / HIGH |
| 52-Week Range | Rs122.00-Rs445.48 |
| Market Value (mn) | US$2,962 |
| Shares Outstanding (mn) | 514.0 / 514.0 |
| Average Daily Volume | 6,018,329 |
| ML Symbol / Exchange | TENJF / BSE |
| ML Symbol / Exchange | TTM / NYS |
| Bloomberg / Reuters | TTMT IN / TAMO.BO |
| ROE (2009E) | -33.3% |
| Net Dbt to Eqty (Mar-2008A) | 84.6% |
| Est. 5-Yr EPS / DPS Growth | 25.0% / 10.0% |
| Free Float | 68.0% |

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Refer to important disclosures on page 11 to 14. Analyst Certification on Page 9. Price Objective Basis/Risk on page 9.



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# *iQprofile* SM Tata Motors

| Key Income Statement Data (Mar) | 2007A | 2008A | 2009E | 2010E | 2011E |
|---|---|---|---|---|---|
| (Rs Millions) | | | | | |
| Sales | 324,264 | 356,515 | 707,493 | 770,112 | 943,777 |
| Gross Profit | 41,514 | 42,732 | 20,069 | 46,614 | 79,710 |
| Sell General & Admin Expense | NA | NA | NA | NA | NA |
| Operating Profit | 33,778 | 34,243 | (8,476) | 16,280 | 46,264 |
| Net Interest & Other Income | (2,526) | (4,767) | (16,522) | (18,644) | (14,438) |
| Associates | 0 | 0 | 0 | 0 | 0 |
| Pretax Income | 31,252 | 29,475 | (24,998) | (2,364) | 31,827 |
| Tax (expense) / Benefit | (8,832) | (8,515) | (3,358) | (2,865) | (4,874) |
| Net Income (Adjusted) | 21,964 | 20,672 | (23,750) | (4,535) | 26,243 |
| Average Fully Diluted Shares Outstanding | 385 | 386 | 514 | 562 | 562 |
| **Key Cash Flow Statement Data** | | | | | |
| Net Income | 22,070 | 20,290 | (28,758) | (5,736) | 26,243 |
| Depreciation & Amortization | 7,736 | 8,490 | 28,545 | 30,334 | 33,445 |
| Change in Working Capital | (39,415) | 40,032 | (10,034) | 8,860 | 20,900 |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | (350) | 1,438 | 0 | 0 | 0 |
| Cash Flow from Operations | (9,959) | 70,249 | (10,247) | 33,458 | 80,588 |
| Capital Expenditure | (26,921) | (61,063) | (86,983) | (70,388) | (69,793) |
| (Acquisition) / Disposal of Investments | 869 | (14,912) | (108,205) | 2,493 | 0 |
| Other Cash Inflow / (Outflow) | NA | NA | NA | NA | NA |
| Cash Flow from Investing | (26,052) | (75,975) | (195,188) | (67,895) | (69,793) |
| Shares Issue / (Repurchase) | 25 | 1 | 1,285 | 480 | 0 |
| Cost of Dividends Paid | (6,785) | (6,787) | (3,620) | (6,596) | (9,235) |
| Cash Flow from Financing | 33,689 | 32,515 | 113,908 | 26,426 | (4,851) |
| Free Cash Flow | (36,880) | 9,186 | (97,230) | (36,930) | 10,796 |
| Net Debt | 61,476 | 77,517 | 341,430 | 321,236 | 318,964 |
| Change in Net Debt | 41,549 | 16,041 | 159,438 | 4,562 | (2,271) |
| **Key Balance Sheet Data** | | | | | |
| Property, Plant & Equipment | 75,142 | 128,634 | 298,954 | 339,009 | 375,356 |
| Other Non-Current Assets | 16,176 | 32,320 | 178,940 | 136,128 | 136,128 |
| Trade Receivables | 17,022 | 20,605 | 18,926 | 19,933 | 25,048 |
| Cash & Equivalents | 11,543 | 38,332 | 8,060 | 21,938 | 39,752 |
| Other Current Assets | 129,679 | 133,806 | 135,271 | 159,082 | 171,642 |
| Total Assets | 249,562 | 353,697 | 640,153 | 676,090 | 747,925 |
| Long-Term Debt | 73,019 | 115,849 | 349,490 | 343,174 | 358,716 |
| Other Non-Current Liabilities | 8,173 | 9,745 | 9,320 | 9,320 | 9,320 |
| Short-Term Debt | NA | NA | NA | NA | NA |
| Other Current Liabilities | 88,654 | 136,446 | 221,226 | 254,904 | 293,479 |
| Total Liabilities | 169,846 | 262,039 | 580,036 | 607,397 | 661,514 |
| Total Equity | 79,716 | 91,658 | 60,117 | 68,692 | 86,410 |
| Total Equity & Liabilities | 249,562 | 353,697 | 640,153 | 676,090 | 747,925 |
| ***iQmethod* SM - Bus Performance*** | | | | | |
| Return On Capital Employed | 18.5% | 13.1% | -2.3% | 3.7% | 9.4% |
| Return On Equity | 31.7% | 25.2% | -33.3% | -7.6% | 36.4% |
| Operating Margin | 10.4% | 9.6% | -1.2% | 2.1% | 4.9% |
| EBITDA Margin | 12.8% | 12.0% | 2.8% | 6.1% | 8.4% |
| ***iQmethod* SM - Quality of Earnings*** | | | | | |
| Cash Realization Ratio | -0.5x | 3.4x | NM | NM | 3.1x |
| Asset Replacement Ratio | 3.9x | 7.8x | 3.1x | 2.4x | 2.2x |
| Tax Rate (Reported) | 28.3% | 28.9% | NM | NM | 15.3% |
| Net Debt-to-Equity Ratio | 77.1% | 84.6% | 567.9% | 467.6% | 369.1% |
| Interest Cover | 8.3x | 4.6x | -0.4x | 0.7x | 1.9x |

## Key Metrics

* For full definitions of *iQmethod* SM measures, see page 10.

## Company Description

Tata Motors (est. 1945) is India's leading automobile maker, and is among the top 10 auto manufacturers in the world. The company has more than 130 models spanning a wide range of commercial vehicles, passenger cars and multi-utility vehicles. The company operates out of plants at Jamshedpur, Pune and Lucknow. Key export markets include Europe, Australia, South East Asia, the Middle East and Africa.

## Investment Thesis

We rate Tata Motors Buy, on strong operational recovery of its domestic business, which we believe should be the prime driver of stock valuations. We believe that JLR weakness will continue but is already known. Our sum-of-the-parts valuation offers reasonable upside.

## Stock Data

| | |
|---|---|
| Shares / ADR | 1.00 |
| Price to Book Value | 2.6x |

# Buy for 30% potential upside

Following a Rs 25bn consolidated loss last year, we forecast strong reversal over the next 2 years driven by both domestic business and JLR. We also estimate rising operating cash flows to restrict overall debt, and sustain JLR business. Our PO of Rs 365 factors higher debt position, which lowers imputed equity value.

## Consolidated operations: Expect sharp trend reversal

Following a Rs 25bn consolidated loss last year, we expect Tata Motors to approach breakeven in FY10, and register net profit of Rs 26.2bn in FY11. Our estimates are based on:

1. Reduced losses in JLR, also due to sizeable cost restructuring initiatives, and back-ended sales growth driven by global recovery, and supported by new models;

2. Domestic recovery, mainly CV business (75% of sales), improved pricing environment, and lower material costs compared to last fiscal;

3. Improved operations of key operating subsidiaries, some due to dependence on domestic CVs, and others on increased economic activity (Telcon, Tata Daewoo);

Table 1: Consolidated P&L

| | FY07 | FY08 | FY09 | FY10E | FY11E |
|---|---|---|---|---|---|
| Net Sales | 324.3 | 356.5 | 707.5 | 770.1 | 943.8 |
| -Tata Motors (Standalone/Subsidiaries) | 324.3 | 356.5 | 314.0 | 346.5 | 435.4 |
| -JLR | 0 | 0 | 393.5 | 423.7 | 508.4 |
| Consolidated EBITDA | 41.5 | 42.7 | 20.1 | 46.6 | 79.7 |
| -Tata Motors (Standalone/Subsidiaries) | 41.5 | 42.7 | 23.4 | 36.6 | 49.3 |
| -JLR | 0 | 0 | -3.3 | 10.0 | 30.4 |
| EBITDA Margin | 12.8% | 12.0% | 2.8% | 6.1% | 8.4% |
| Depreciation | 7.7 | 8.5 | 28.5 | 30.3 | 33.4 |
| Interest Exp | 4.1 | 7.4 | 19.3 | 23.3 | 24.1 |
| Other income | 1.5 | 2.7 | 2.8 | 4.7 | 9.7 |
| Recurring PAT | 22.0 | 20.7 | (23.7) | (4.5) | 26.2 |
| FDEPS (Rs) | 57.0 | 53.6 | -46.2 | -8.1 | 46.7 |

Source: Banc of America Securities-Merrill Lynch Research

## Cash flows: Bottomed out, JLR to self sustain

Last year, Tata Motors was dragged down by JLR's negative operating cash flows (minus Rs xxbn), which necessitated additional funding from the parent ($1bn domestic rights issue as well as partial divestments). We view the next 2 years as follows:

- In FY10E, we expect Tata Motors' standalone operations will require to raise $500mn (likely equity issuance), and JLR ~$600mn through loans, both to fund capex/R&D spend and other operating requirements; we expect this to be achieved with ease;

- By FY11E, we expect domestic business to throw out cash well in excess of requirements, enabling repayment of debt, and JLR operations to be self sustaining.

Table 2: Funds flow

| | FY10E | | FY11E | |
|---|---|---|---|---|
| | Tata Motors | JLR | Tata Motors | JLR |
| Sources of Funds | | | | |
| Cash flow from operations | 3,091 | 10,292 | 46,499 | 31,352 |
| Equity issue | 19,200 | 0 | 0 | 0 |
| Inc/ (dec) in debt | 1,745 | 29,672 | (14,500) | 11,869 |
| Investment sale | 10,275 | 0 | 0 | 0 |
| Sources | 34,311 | 39,964 | 31,999 | 43,221 |
| | | | | |
| Requirement of funds | | | | |
| Capex | 25,000 | 43,518 | 25,000 | 43,518 |
| Dividend | 6,137 | 0 | 8,974 | 0 |
| Requirements | 31,137 | 43,518 | 33,974 | 43,518 |
| | | | | |
| Inc/ (dec) in cash | 3174 | (3,554) | (1976) | (297) |

Source: Banc of America Securities-Merrill Lynch Research

## Investment sale only partially considered

Investment sales i.e. subsidiaries, listed securities, Mutual Funds, will likely be the first option to meet funding gap. Our forecasts have only built in sale of investments in Tata Steel (21mn equity shares and 24mn CCPs), aggregating Rs 10bn ($210mn). In continuation of recent trends, we expect further monetization of operating subsidiaries, this time larger companies such as Tata Finance and Tata Technologies (valued at Rs 10bn and Rs 9bn respectively).

## Equity infusion was factored earlier

We retain our assumption of $500mn (Rs24bn) equity issuance later this year. We expect the company to tap the market when the business environment improves, which we think is likely in H2 FY10.

## We expect debt levels to stabilize

Tata Motors' consolidated debt of Rs 349.5bn includes loans in JLR, SPV as well as financing business. Of this, JLR's loans are expected to substantially increase over our forecast period. On the other hand, Tata Motors' standalone borrowings are expected to decline on surplus cash generation, enabling it to retire debt.

Table 3: Debt Break-up

| (Rs mn) | FY08 | FY09 | FY10E | FY11E |
|---|---|---|---|---|
| Standalone | 62,805 | 131,660 | 133,405 | 118,905 |
| Subsidiaries (Tata Finance) | 53,044 | 52,100 | 54,687 | 72,861 |
| SPV | - | 102,290 | 61,970 | 61,970 |
| JLR | - | 63,440 | 93,112 | 104,981 |
| Total | 115,849 | 349,490 | 343,174 | 358,716 |

Source: Banc of America Securities-Merrill Lynch Research

# JLR: Cost restructuring to cut losses

JLR's net loss of Rs 24bn (£307mn) last year is attributed to (1) negative operating leverage, as combined volume sales declined 32% at 167,000 units, (2) high commodity prices, with spot steel prices up 15% YoY, and (3) increased sales incentives on its models. We believe that these variables will turn favourable for the company over the next 12-18 months.

## We expect sharp improvement hereon

We expect reversion to profit by FY11, driven by (1) sharp margin expansion, on specific measures to contain costs, and thereby lower breakeven levels, and (2) back-ended volume growth, on economic recovery and new product launches. Based on revised estimates, we expect JLR to break even on combined sales volumes of ~200,000 units.

Table 4: JLR P&L

| (£ mn) | CY08A | CY09E | CY10E |
|---|---|---|---|
| Volume | 167,000 | 178,023 | 207,423 |
| *YOY change (annualized)* | -42% | -11.2% | 16.5% |
| Realization | 29,778 | 30,076 | 30,979 |
| Yoy chg | 17% | 1% | 3% |
| Net Revenue | 4,973.0 | 5,354.2 | 6,425.6 |
| Raw Material | 3,164.0 | 3,190.8 | 3,821.5 |
| Employee cost | 569.0 | 591.4 | 565.4 |
| Other Operating Exp | 1,282.0 | 1,445.6 | 1,654.6 |
| EBITDA | -42.0 | 126.4 | 384.2 |
| EBITDA (%) | -0.8% | 2.4% | 6.0% |
| EBIT | -251.0 | -101.5 | 139.4 |
| Depreciation & Amortization | 209.0 | 227.9 | 244.8 |
| Interest Payable | 31.0 | 64.7 | 73.0 |
| Other Income | 0.0 | 0.0 | 0.0 |
| PBT | -282.0 | -166.2 | 66.4 |
| Exceptional Items | 0.0 | 0.0 | 0.0 |
| Tax | -25.0 | 0.0 | 0.0 |
| PAT | -307.0 | -166.2 | 66.4 |

Source: Banc of America Securities-Merrill Lynch Research

## Sales outlook remains challenging

We assume 11% annualized decline in JLR sales volumes in FY10 (compared to 10-month period last year), but rebound by 16.5% in FY11. Our expectations are based on:

1. Global economic recovery from the latter half of CY10;
2. Increased penetration into emerging markets such as Russia, China and even India (presently under 5% of Jaguar and 15% of Land Rover sales);
3. New models, e.g. New platform XJ expected by year-end, and Land Rover concept, a smaller SUV with low-emissions scheduled to hit roads late-CY10;

Table 5: JLR volume revision

| | FY10E | | | FY11E | | |
|---|---|---|---|---|---|---|
| | Earlier | Revised | %Revision | Earlier | Revised | %Revision |
| Jaguar | 55.3 | 54.0 | -2.4% | 60.8 | 64.7 | 6.4% |
| Land Rover | 130.6 | 124.0 | -5.1% | 143.7 | 142.7 | -0.7% |
| Total | 185.9 | 178.0 | -4.2% | 204.5 | 207.4 | 1.4% |

Source: Banc of America Securities-Merrill Lynch Research

## Margins to expand sharply

We expect EBITDA margins to revert to positive territory as early as FY10, and expand 680bps on a cumulative basis over the next 2 years. This will be aided by higher sales and stable commodity prices. Specific steps to drive this include:

1. Rationalisation of workforce, with unions agreeing to 2,000 job cuts in H2 CY10 (15% lower), along with medium term wage freeze; we estimate this should lower related expenses by GBP 700/car (~20%);

2. Increased outsourcing from low cost destinations to 35% (up from 23% presently); this is expected to save GBP 500/car;

3. Better sales mix from shift to new models, aiding higher ASPs (up 4%), as well as moderation in incentives; this should add an estimated GBP 1,200/car.

## We expect positive cash generation from FY10

JLR's exemplary working capital management (extension of vendor payments, and reduction in both debtors and inventory) cushioned operating cash flows last year. It is unlikely that the company will be able to achieve similar efficiency on an incremental basis, in our view, but lower losses should enable JLR to revert to positive cash generation from FY10E.

## Capex requirements pegged at historic levels

Management has guided for annual capex at GBP 150mn, and R&D spend at GBP 350-400mn. We have estimated $550mn annual outlay (~Rs 43bn/year), in line with historic levels. Based on Indian GAAP, the company will continue to charge only 10% of product development related spend through P&L, and capitalize the balance.

## Borrowings from European bank

JLR is close to obtaining approval for GBP 340mn loan from European Investment Bank, and is awaiting guarantee from the British Government. This would enable JLR meet its requirements for next 12 months.

## Domestic business close to turnaround

We expect Tata Motors' standalone operations to register 45% EBITDA CAGR over FY09-11E, driven by (1) demand revival, both in CVs due to cyclical recovery, and PVs from new products, and (2) margin expansion due to positive leverage and lower material costs. Strong cash flows and moderating capex will enable company to lower debt and also slow depreciation provisioning. As a result, we expect per share earnings (EPS) to rise ~4.5x during forecast period.

Table 6: Stand-alone P&L

| | FY07 | FY08 | FY09 | FY10E | FY11E |
|---|---|---|---|---|---|
| Volumes ('000) | | | | | |
| Commercial vehicles | 334 | 353 | 291 | 305 | 354 |
| Passenger Vehicles | 245 | 232 | 207 | 210 | 225 |
| Nano | 0 | 0 | 0 | 80 | 200 |
| Total | 579 | 584 | 498 | 595 | 779 |
| | | | | | |
| (Rs mn) | | | | | |
| Net Sales | 275,708 | 286,466 | 254,712 | 291,718 | 358,646 |
| EBITDA | 33,493 | 28,705 | 15,629 | 28,312 | 37,166 |
| %Margin | 12.1% | 10.0% | 6.1% | 9.7% | 10.4% |
| PBT | 25,732 | 26,916 | 10,138 | 17,860 | 18,875 |
| Recurring Profit | 19,409 | 18,731 | 3,646 | 9,340 | 16,043 |
| EPS (Rs) | 47.7 | 43.9 | 6.6 | 17.7 | 28.9 |
| ROCE | 20.7% | 17.7% | 14.7% | 18.7% | 17.7% |

Source: Banc of America Securities-Merrill Lynch Research

### Commercial vehicles driven by economic recovery

We expect a sharp recovery in CVs, on the back of (1) higher industrial growth forecasts, driving truck demand, (2) government-led initiatives to upgrade public transport, aiding bus sales, and (3) passenger applications improving light vehicle demand. We expect Tata Motors to maintain existing levels of dominant market share in this next cycle, thanks to newer products, better scale and distribution.

Table 7: CV growth by category

| | FY10E | | FY11E | |
|---|---|---|---|---|
| | Industry | TAMO | Industry | TAMO |
| Trucks | 2.5% | 5.0% | 22.5% | 22.5% |
| Buses | 17.4% | 20.0% | 25.0% | 25.0% |
| LCV | 8.3% | 8.0% | 12.5% | 12.0% |
| Total | 6.1% | 7.5% | 18.3% | 17.0% |

Source: Banc of America Securities-Merrill Lynch Research

### Passenger vehicle growth through new products

Following a reasonably successful launch of the compact model *Indica Vista*, we expect the upgrade of *Indigo* sedan in fiscal 2010 followed by the full scale launch of low-cost car, *Nano*, at an entirely new price point. We believe that Tata Motors will be the fastest growing car company, albeit less profitable. In Utility vehicles we expect market share losses to continue, until launch of new platform in end-FY10 (but this accounts for just 8% of sales).

## Valuation: Attractive, post-correction

Our revised sum of parts value of Rs 365/share (earlier Rs 420), is based on (1) standalone business at 8x EV/EBITDA FY11E, slight premium to previous mid-cycle sector multiple, and (2) JLR at 0.25x EV/Sales FY11E, 30% discount to long term European auto sector average, and (3) subsidiaries in line with peers of constituent business, with a 20% holding company discount.

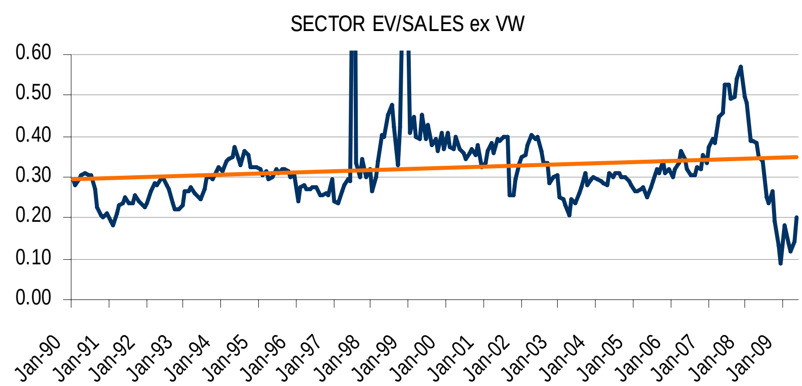
### Standalone value raised

We retain our forecasts, as well as multiple of 8x EV/EBITDA FY11E. However, we raise estimated fair value of standalone business to Rs 355/share (earlier Rs 341), due to the lower net debt assumption, on expected monetization of investments in Tata Steel.

### JLR valued on EV/Sales

Based on BAS-MLe forecasts (see Sustainable gains), European auto sector trades at 0.3x EV/sales, well below long term average of 0.35x (since 1990). We assign EV/Sales multiple of 0.25x to JLR, ~30% discount to long term sector average. Resultant target EV is Rs 128 bn, and after deducting debt of $3.8bn (including SPV), we arrive at equity value of minus Rs 70/share (earlier NIL).

Chart 1: European Auto Sector – Long Term EV/Sales




Source: BAS-ML Research

### Revised PO at Rs 365

This is lower than the earlier SOTP-based value of Rs 420 (tabulated below):

Table 8: SOTP Valuation

| | Methodology | Imp Multiple | Value/Share(Rs) |
|---|---|---|---|
| Standalone | EV/EBITDA | 8.0 | 354 |
| Jaguar - Land Rover | EV/Sales | 0.25 | -70 |
| Subsidiaries | | | 81 |
| - Tata Daewoo | EV/EBITDA | 4.0 | 27 |
| - HV Axles (85%) | EV/EBITDA | 8.0 | 6 |
| - HV Transmission (85%) | EV/EBITDA | 8.0 | 4 |
| - Telcon (60%) | P/E | 15.0 | 21 |
| - TACO (26%) | P/E | 10.0 | 9 |
| - Tata Technologies (85%) | P/E | 10.0 | 14 |
| - Tata Finance | P/NAV | 1.0 | 20 |
| Less: Holding co discount | | | -20 |
| Consolidated Value/Share | | | 365 |

Source: Banc of America Securities-Merrill Lynch Research

## Price objective basis & risk

### Tata Motors Ltd. (TENJF / TTM)

Our PO of Rs365 (US$10.5 for ADR) is based on FY11E, being the sum-of-the-parts of: (1) standalone business valued at 8x EV/EBITDA, equivalent to a slight premium to mid-cycle valuations, (2) JLR at 0.25x EV/Sales, 30% discount to long term European auto sector average, and (3) subsidiaries valued in line with comparables, with 20% holding discount. Risks: Economic slowdown to continue, which would adversely affect volume growth, both in domestic operations and JLR. Rising input and interest costs also pose significant earnings risk.

## Analyst Certification

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India - Autos Coverage Cluster

| Investment rating | Company | ML ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| BUY | | | | |
| | Hero Honda | HRHDF | HH IN | S.Arun |
| | M & M | MAHHF | MM IN | S.Arun |
| | M & M -G | MAHMF | MHID LI | S.Arun |
| | Tata Motors Ltd. | TENJF | TTMT IN | S.Arun |
| | Tata Motors Ltd. | TTM | TTM US | S.Arun |
| | TVS Motor | XFKMF | TVSL IN | S.Arun |
| NEUTRAL | | | | |
| | Eicher Motors | XEICF | EIM IN | S.Arun |
| | Jet Airways | JTAIF | JETIN IN | S.Arun |
| | Maruti Suzuki India | MUDGF | MSIL IN | S.Arun |
| UNDERPERFORM | | | | |

## India - Autos Coverage Cluster

| Investment rating | Company | ML ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| | Ashok Leyland | XDBVF | AL IN | S.Arun |
| | Bajaj Auto | XBJBF | BJAUT IN | S.Arun |
| | Bharat Forge | XUUVF | BHFC IN | S.Arun |
| | Container Corp | CIDFF | CCRI IN | Sanjaya Satapathy |

## *iQmethod* SM Measures Definitions

| Business Performance | Numerator | Denominator |
|---|---|---|
| Return On Capital Employed | NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization | Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization |
| Return On Equity | Net Income | Shareholders' Equity |
| Operating Margin | Operating Profit | Sales |
| Earnings Growth | Expected 5-Year CAGR From Latest Actual | N/A |
| Free Cash Flow | Cash Flow From Operations – Total Capex | N/A |
| **Quality of Earnings** | | |
| Cash Realization Ratio | Cash Flow From Operations | Net Income |
| Asset Replacement Ratio | Capex | Depreciation |
| Tax Rate | Tax Charge | Pre-Tax Income |
| Net Debt-To-Equity Ratio | Net Debt = Total Debt, Less Cash & Equivalents | Total Equity |
| Interest Cover | EBIT | Interest Expense |
| **Valuation Toolkit** | | |
| Price / Earnings Ratio | Current Share Price | Diluted Earnings Per Share (Basis As Specified) |
| Price / Book Value | Current Share Price | Shareholders' Equity / Current Basic Shares |
| Dividend Yield | Annualised Declared Cash Dividend | Current Share Price |
| Free Cash Flow Yield | Cash Flow From Operations – Total Capex | Market Cap. = Current Share Price * Current Basic Shares |
| Enterprise Value / Sales | EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities | Sales |
| EV / EBITDA | Enterprise Value | Basic EBIT + Depreciation + Amortization |

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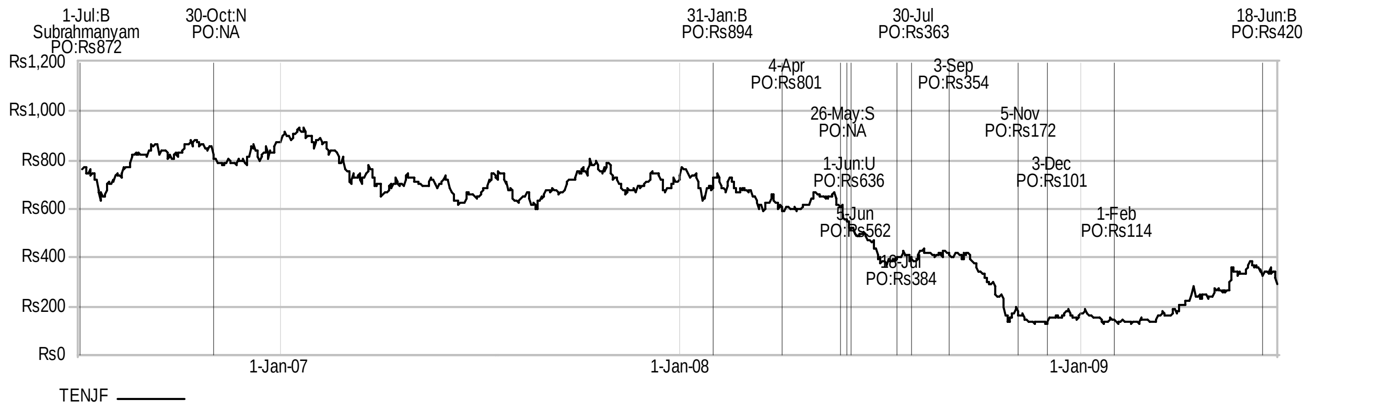
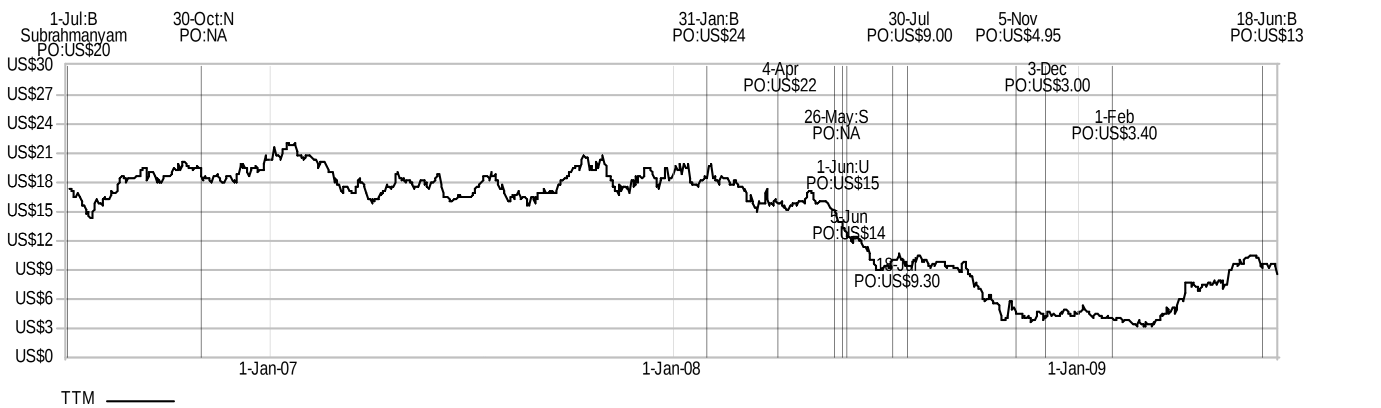
## TENJF Price Chart




B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2009 or such later date as indicated. BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of June 30, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

## TTM Price Chart

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| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|---|---|---|---|---|---|
| Buy | 33 | 44.00% | Buy | 14 | 48.28% |
| Neutral | 13 | 17.33% | Neutral | 5 | 55.56% |
| Sell | 29 | 38.67% | Sell | 15 | 60.00% |

## Investment Rating Distribution: Global Group (as of 01 Jun 2009)

| Coverage Universe | Count | Percent | Inv. Banking Relationships* | Count | Percent |
|---|---|---|---|---|---|
| Buy | 1303 | 40.83% | Buy | 602 | 51.10% |
| Neutral | 807 | 25.29% | Neutral | 362 | 51.49% |
| Sell | 1081 | 33.88% | Sell | 394 | 39.96% |

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|---|---|---|
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