kotak Institutional Equities

Tata Motors (TTMT)

Automobiles

ADD

NOVEMBER 18, 2011

UPDATE

Coverage view: Cautious

Price (Rs): 170

Target price (Rs): 195

BSE-30: 16,372

JLR performance overriding weak domestic business. JLR's volume growth is likely to remain strong, aided by new model launches and strong growth in emerging markets (China, Russia, Latin America and Middle East), which is likely to mask weak domestic business. We maintain our ADD rating on the stock due to strong volume growth in JLR business. We have revised our target price upwards to Rs195 (from Rs180 earlier) due to an increase in our JLR earnings estimates.

Company data and valuation summary

Tata Motors

Stock data			
52-week range (Rs) (high,low)			276-138
Market Cap. (Rs bn)			566.2
Shareholding pattern (%)			
Promoters			34.8
FIIs			42.4
MFs			1.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(6.0)	13.2	(30.8)
Rel. to BSE-30	(3.9)	13.9	(15.8)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	27.2	25.0	27.4
EPS growth (%)	737.9	(8.1)	9.7
P/E (X)	6.3	6.8	6.2
Sales (Rs bn)	1,231.3	1,483.3	1,641.5
Net profits (Rs bn)	90.4	83.1	91.1
EBITDA (Rs bn)	168.2	179.8	197.9
EV/EBITDA (X)	4.7	4.6	4.2
ROE (%)	66.1	36.5	30.0
Div. Yield (%)	2.3	1.7	1.7

JLR volume growth is expected to remain strong, lifted by emerging markets

Retail volumes of JLR in 1HFY12 have increased 12% yoy driven by strong growth in China, Russia and other emerging markets (+41% yoy) while developed markets have reported a 2% yoy decline in JLR volumes. China, Russia and other emerging markets now form 40% of JLR volumes while developed markets (US and Europe) form 60% of JLR volumes. We expect JLR volumes to increase 13% yoy in FY2012E and 9% yoy in FY2013E. JLR volume growth would also be supported by smaller 4 cylinder 2.2 litre Jaguar XF and smaller Land Rover Evoque in our view. Jaguar XF and Evoque would form 28% of total volumes in FY2012E of JLR and increase to 32% in FY2013E.

However, we expect EBITDA margins to decline from current levels by 70 bps in FY2013E due to (1) higher incentives and marketing spends due to weak growth in developed markets and (2) higher contribution of lower priced models in the product mix. However, positive geographical mix and higher Land Rover volumes in the product mix is likely to partially offset the impact on EBITDA margins.

Domestic business is impacted by a deterioration in profitability of passenger car business

Tata Motor's commercial vehicle business has maintained a strong growth in volumes despite slowdown in the industrial production but EBITDA margins of the domestic business have declined significantly due to higher discounts/marketing spends/lower volumes in the passenger car business. We believe the domestic business will continue to remain under pressure as we expect Tata Motors to lose market share in the passenger car business and expect moderate growth in the medium and heavy commercial vehicle segment.

We revise our earnings estimates by 5-11% over FY2012-2013E

We have increased our consolidated earnings estimates for Tata Motors by 5-11% over FY2012-2013E factoring in – 6-15% increase in JLR earnings estimates on higher volume growth while we have revised our standalone earnings estimates by 4-7% over the same period. We have increased our target price to Rs195 (from Rs180 earlier) based on an increase in our earnings estimates.

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Maintain ADD; Revise target price to Rs195

We retain our ADD rating on the stock due to cheap valuations, which factor in weak profitability in both standalone and JLR businesses. The stock currently trades at 4.6X EV/EBITDA (adjusted for capitalized R&D) on our FY2013E consolidated estimates. We believe JLR's profitability is expected to remain under pressure despite strong volume growth due to an increase in incentives and marketing expenditure, raw material cost pressures and shift towards lower priced models. Domestic business is also expected to remain under pressure due to deteriorating profitability of the passenger car business which is likely to offset strong performance in the LCV and MHCV businesses.

We have increased our target price to Rs195 (from 180 earlier) as we have increased our earnings estimates for the JLR business factoring in increase in our volume assumptions. We value the stock with a sum-of-the-parts valuation methodology. We ascribe Rs101/share value to the domestic business, Rs127/share to the JLR business and Rs21/share to rest of the subsidiaries. Our standalone business is valued at 6.5X EV/EBITDA at a 15% discount to its mid-cycle multiple due to a deterioration in profitability of the domestic business and JLR business is valued at 4X EV/EBITDA (after deducting for 50% of the total R&D costs which are assumed as recurring expenses in line with the accounting treatment followed by global luxury car manufacturers).

Tata Motors sum-of-the-parts valuation table
March fiscal year-ends (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comments
Tata Motors standalone EV	49,602	6.5	322,410	101	based on 6.5X FY2013E EBITDA
JLR standalone EV	100,946	4.0	403,783	127	based on 4X FY2013E EBITDA, deducting 450 mn pounds of R&D expense from reported EBITDA
Less: Net debt - consol			169,018	53	ex vehicle financing debt
Total standalone + JLR			**557,175**	**175**	
Value of subsidiaries				21	
SOTP-based value				**196**	
Target price				**195**	

Source: Kotak Institutional Equities estimates

We expect moderate volume growth in MHCV business over the next two years

We believe MHCV volumes are likely to remain sedate despite weak growth in industrial production and freight generating sectors. Our interactions with truck fleet operators across the country indicate that the supply of trucks in the economy is keeping pace with the growth in freight demand, which effectively means that it is unlikely that truck volume growth is likely to decline in 2HFY12. We forecast MHCV volumes to grow at a modest 7% over FY2012E due to sedate growth in truck volumes but flat growth in bus volumes due to weak demand from state transport undertakings for buses.

Truck freight rates have also remained stable across the country while on certain routes in East and North to South India we have started to see freight rates declining, which clearly indicates a weak demand of goods which could impact truck volume growth, in our view. We believe Tata Motors is unlikely to gain market share from current levels due to an increase in competitive intensity in the sector and expect it to grow in line with the industry. In the near term, we see more risk to Ashok Leyland's market share in the commercial vehicle segment due to a slowdown in South India and weak product momentum as compared to Tata Motors.

Key takeaways from our interactions with truck fleet operators

- Demand for goods is lower from North to South India routes and all routes generating from East India. Demand for goods seems fairly buoyant from routes generating from West and South India.

- **Freight generating sectors are showing good demand.** Cement, LPG gas transportation, consumer goods, agricultural goods, wind power equipment, chemicals, export-import and garments.

- **Freight generating sectors where demand has slowed down.** Power equipment, iron ore mining, capital goods equipment, car transportation, automotive component sector and coal transportation.

- Small fleet operators (less than 20 trucks) have not been able to increase truck freight rates when diesel price increased. Their profitability is therefore under pressure. They are holding back the purchase of new vehicles as interest rates are high and profitability is down.

- Big fleet operators have one-year contracts which have clauses of diesel price escalation and their profitability is still very good and they have no issues in terms of profitability. Big fleet operators have been adding vehicles and are also replacing vehicles.

- Interest rates for financing for new trucks vary between 12-16% depending on the client. Big transport operators get very good rates from financiers.

LCV volumes likely to remain strong

We estimate LCV volumes to grow at a 15% CAGR over the next two years and expect the segment to outpace MHCV segment due to (1) need for last mile connectivity, (2) strong growth expected in the lower tonnage segment (less than 1-1.5 ton segment) which is unlikely to get impacted by economic slowdown and (3) increase in finance penetration for these products which is aiding penetration of these products in semi-urban and rural areas. However, competition in this space is also increasing with Nissan, GM, Renault planning to enter the LCV segment with a range of products over the next couple of years. Tata Motors will continue to benefit from strong distribution network and we do not expect a significant decline in Tata Motor's market share in the LCV segment over the next few years.

Domestic LCV volumes have grown at a 20% CAGR over the last 7 years
Domestic LCV volume trend, March fiscal year-ends, 2004-2011 (units)

	2004	2005	2006	2007	2008	2009	2010	2011	Apr-Oct 2011
LCV volumes	98,933	119,883	144,133	192,217	215,821	200,637	286,797	353,621	245,019
yoy chg (%)		21.2	20.2	33.4	12.3	(7.0)	42.9	23.3	28.5
Tata Motors mkt shr (%)	49.6	50.7	60.5	65.4	62.2	59.9	58.6	56.8	57.3

Source: SIAM

Passenger car segment continues to be a drag on the standalone performance

Tata Motors has lost 100 bps market share in the passenger car segment in April-October 2011 period due to weak performance of the Nano and Indigo brands. The company has increased discounts and marketing spends in the business to improve volumes but it has not been able to increase company's volumes. Tata Motors has also not been able to capitalize on the shift towards diesel models from petrol models due to jaded product line up. We believe passenger car business will continue to lose market share to competitors due to weak brand and product line up.

Tata Motors standalone volume estimates
March fiscal year-ends, 2009-2013E (units)

	2009	2010	2011	2012E	2013E	2014E
M&HCVs	**123,011**	**167,829**	**209,522**	**225,058**	**243,842**	**273,758**
M&HCVs-domestic	113,674	155,137	192,127	205,576	222,022	248,665
M&HCVs-exports	9,337	12,692	17,395	19,482	21,820	25,093
LCVs	**168,495**	**233,697**	**287,463**	**350,049**	**402,556**	**462,939**
LCVs-domestic	151,338	218,478	254,654	310,678	357,280	410,871
LCVs-exports	17,157	15,219	32,809	39,371	45,276	52,068
UVs	**39,981**	**34,124**	**43,063**	**45,586**	**49,262**	**55,174**
UVs-domestic	39,303	33,531	42,297	44,835	48,422	54,232
UVs-exports	678	593	766	751	841	942
Passenger vehicles	**166,660**	**207,036**	**263,274**	**216,696**	**241,139**	**268,588**
Passenger vehicles-domestic	160,422	171,049	185,767	152,329	167,562	184,318
Passenger vehicles-exports	6,238	5,637	7,075	6,368	6,877	7,565
Small car		30,350	70,432	58,000	66,700	76,705
Total domestic sales	464,737	608,545	745,277	771,418	861,985	974,791
Total export sales	33,410	34,141	58,045	65,971	74,814	85,667
Total vehicle sales	**498,147**	**642,686**	**803,322**	**837,389**	**936,799**	**1,060,459**
Volume growth (yoy %)						
M&HCVs	**(31.4)**	**36.4**	**24.8**	**7.4**	**8.3**	**12.3**
M&HCVs-domestic	(31.5)	36.5	23.8	7.0	8.0	12.0
M&HCVs-exports	(30.1)	35.9	37.1	12.0	12.0	15.0
LCVs	**(2.8)**	**38.7**	**23.0**	**21.8**	**15.0**	**15.0**
LCVs-domestic	2.7	44.4	16.6	22.0	15.0	15.0
LCVs-exports	(34.3)	(11.3)	115.6	20.0	15.0	15.0
UVs	**(20.5)**	**(14.6)**	**26.2**	**5.9**	**8.1**	**12.0**
UVs-domestic	(17.6)	(14.7)	26.1	6.0	8.0	12.0
UVs-exports	(73.9)	(12.5)	29.2	(2.0)	12.0	12.0
Passenger vehicles	**(7.0)**	**24.2**	**27.2**	**(17.7)**	**11.3**	**11.4**
Passenger vehicles-domestic	(4.0)	6.6	8.6	(18.0)	10.0	10.0
Passenger vehicles-exports	(48.9)	(9.6)	25.5	(10.0)	8.0	10.0
Small car				(17.7)	15.0	15.0
Total domestic sales	(12.0)	30.9	22.5	3.5	11.7	13.1
Total export sales	(38.4)	2.2	70.0	13.7	13.4	14.5
Total vehicle sales	**(14.5)**	**29.0**	**25.0**	**4.2**	**11.9**	**13.2**

Source: Company, Kotak Institutional Equities estimates

JLR volumes are likely to remain strong due to strong growth in EMs

We expect JLR volumes to grow at 13% yoy in FY2012E and by 9% yoy in FY2013E. JLR volumes have increased by 19% yoy in the Apr-October 2011 period and we estimate JLR to report a 10% yoy growth in volumes in Nov-March 2011 period due to a stiff base effect. Retail volumes of JLR in 1HFY12 have increased 12% yoy driven by strong growth in China, Russia and other emerging markets (+41% yoy) while developed markets have reported a 2% yoy decline in JLR volumes. China, Russia and other emerging markets now form 40% of JLR volumes while developed markets (US and Europe) form 60% of JLR volumes. We expect JLR volume growth to remain weak in the developed markets while growth in emerging markets like China is expected to remain strong.

We summarize our view on JLR below

- JLR volume growth would be supported by smaller 4 cylinder 2.2 litre Jaguar XF and smaller Land Rover Evoque in our view. Jaguar XF and Evoque would form 28% of total volumes in FY2012E of JLR and increase to 32% in FY2013E. This is likely to weigh on EBITDA margins as these models have lower price points.

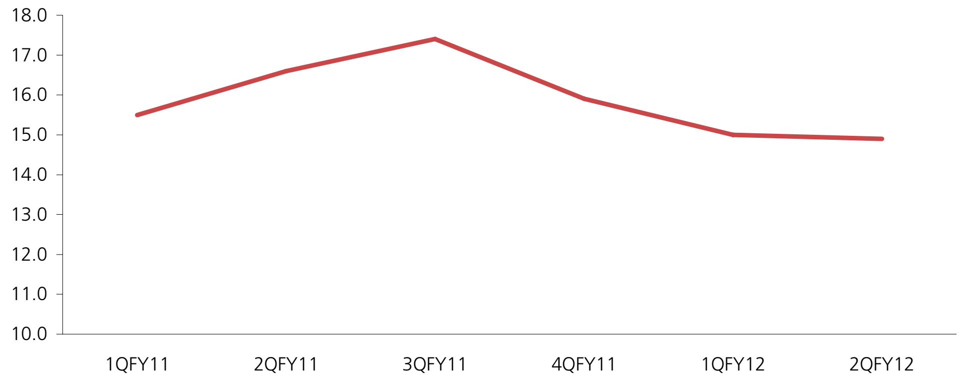
- Contribution of developed markets in JLR volumes would decrease from 60% in FY2012E to 57% in FY2013E due to flat volume growth while emerging markets like China, Russia and Middle East will continue to support volume growth of JLR. JLR's growth in China would be higher than its peers driven by increase in dealerships from current 60-65 to 100 by March 2012 end. Hence, regional mix would be positive for JLR.

- JLR will also benefit from low cost sourcing in future as it plans to increase sourcing from current 22% to 30% in next 3-4 years. However, we do not forsee any near-term benefit from this strategy. JLR has also announced an investment of 355 mn pounds in a new engine facility to produce low emission engines primarily 4 cylinder engines.

- JLR's EBITDA margins are likely to remain under pressure due to (1) increase in incentives due to weak volume growth in developed markets, (2) higher marketing expenses due to launch of new models and (3) inferior product mix due to higher contribution of lower priced models partly offset by positive geographical mix.

- We expect the currency to benefit marginally JLR as our economist expects the GBP to depreciate by 1% versus the USD from current levels in FY2013E. 50% of JLR revenues are in US dollars. The company has also hedged major part of its dollar revenue exposure and Euro exposure (net importer of 20% of sales) for FY2012.

EBITDA margins (adjusted for forex) for JLR have been trending down
JLR quarterly EBITDA margins, March fiscal year-ends (%)



Source: Company

China's share in JLR volumes continues to increase
Retail volumes for JLR, March fiscal year-ends, 1QFY10-2QFY12 (units)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
North America	10,300	9,535	12,091	9,794	12,600	12,068	13,935	11,677	13,918	12,106
UK	10,700	14,373	12,672	19,311	13,200	14,806	10,945	19,183	10,667	14,996
Europe (excluding UK)	12,600	10,388	14,607	12,989	14,900	11,833	12,740	14,238	13,813	12,458
Russia	2,100	2,087	2,676	1,968	2,300	3,170	3,398	2,821	3,590	3,369
China	3,300	3,369	4,520	5,815	6,700	5,801	7,844	8,548	9,943	10,869
Rest of World	8,100	7,041	8,729	9,132	9,400	8,742	9,506	10,550	11,345	11,884
Total volumes	**47,100**	**46,793**	**55,295**	**59,009**	**59,100**	**56,420**	**58,368**	**67,017**	**63,276**	**65,682**
Regional Mix (%)										
North America	21.9	20.4	21.9	16.6	21.3	21.4	23.9	17.4	22.0	18.4
UK	22.7	30.7	22.9	32.7	22.3	26.2	18.8	28.6	16.9	22.8
Europe (excluding UK)	26.8	22.2	26.4	22.0	25.2	21.0	21.8	21.2	21.8	19.0
Russia	4.5	4.5	4.8	3.3	3.9	5.6	5.8	4.2	5.7	5.1
China	7.0	7.2	8.2	9.9	11.3	10.3	13.4	12.8	15.7	16.5
Rest of World	17.2	15.0	15.8	15.5	15.9	15.5	16.3	15.7	17.9	18.1

Source: Company

Jaguar modelwise volume estimates
March fiscal year ends, 2007-2014E (units)

Models	2007	2008	2009	2010	2011	2012E	2013E	2014E
X-Type	23,331	16,320	10,387	8,462	354	44	-	-
S-Type	14,678	1,771	61	-	-	-	-	-
XF	32	33,512	31,844	33,870	32,665	34,000	37,400	41,140
XJ	10,455	6,659	3,523	2,639	13,560	14,500	15,225	15,986
XK	11,989	7,184	6,040	6,049	5,239	5,500	5,775	6,064
Total	**60,485**	**65,446**	**51,855**	**51,020**	**51,818**	**54,044**	**58,400**	**63,190**

Source: Company, Kotak Institutional Equities estimates

Land Rover modelwise volume estimates
March fiscal year-ends, 2007-2014E (units)

Models	2007	2008	2009	2010	2011	2012E	2013E	2014E
Defender	23,154	25,140	18,663	19,131	18,438	22,000	22,000	22,000
Discovery	47,522	34,149	26,733	30,846	40,368	44,003	46,204	48,514
Freelander	66,582	58,089	45,221	48,011	57,402	52,000	54,600	57,330
Range Rover	30,299	23,515	18,240	19,783	25,292	30,000	31,500	33,075
RRSport	58,838	45,697	35,514	39,406	47,587	48,000	50,400	52,920
Evoque						30,000	41,142	54,157
Total	**226,395**	**186,590**	**144,371**	**157,177**	**189,087**	**226,003**	**245,846**	**267,995**

Source: Company, Kotak Institutional Equities estimates

Cash flow improvement remains weak

The company has reduced its consolidated net automotive debt (ex financing debt) from Rs199.8 bn in 1QFY11 to Rs162.3 bn in 2QFY12. However, we highlight that the company had raised US$750 mn in equity through QIP in 3QFY11 which reduced the debt by Rs33.5 bn. Hence, the consolidated net debt has not reduced due to cash flow improvement in the business but due to equity dilution, which is a concern in our view. JLR has been generating strong free cash flows over the 6 quarters but the standalone business is burning cash in increase in working capital and capex requirements.

This is a key risk to the stock performance in our view as JLR business is very volatile and capex requirements in both JLR and standalone business are high. Hence, a slowdown in the JLR business could result in a further increase in debt levels and lead to further equity raising by the company. Hence, the company would need to rationalize its capex requirements in the standalone business and also work on reducing working capital requirements to generate free cash from the business.

Consolidated net automotive debt has declined due to equity issuance
Consolidated net debt, March fiscal year-ends, 1QFY11-2QFY12 (Rs bn)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Net automotive debt	199.8	216.3	150.0	130.4	145.0	162.3
Net debt/equity (x)	2.0	1.7	0.8	0.7	0.7	0.7

Source: Company

We have increased our earnings estimates by 5-11% over FY2012-2013E

We have revised our earnings estimates upwards by 5-11% over FY2012-2013E, reflecting the following:

- We have revised our standalone EBITDA margin forecasts by 30-70 bps over FY2012-2013E to factor in higher promotion spends, discounts in the passenger car business.
- We have increased our JLR volume estimates by 5-7% due to stronger-than-expected growth in emerging economies while we increase our EBITDA margin assumptions by 10-50 bps over the next two years to factor in higher contribution of China sales in the product mix. We have also increased our product development and interest expenses in JLR.
- We have increased our consolidated earnings estimates by 5-11% to factor in our increase in earnings estimates for JLR.

We revise our standalone earnings estimates downwards by 4-7% over FY2012-2013E
Standalone earnings revision table, March fiscal year-ends (Rs mn)

	New estimates		Old estimates			% change	
	2012E	2013E	2012E	2013E		2012E	2013E
Volumes (units)	837,389	936,799	848,502	943,210		(1.3)	(0.7)
Net sales	535,544	610,748	522,589	593,626		2.5	2.9
EBITDA	40,182	49,602	43,003	49,976		(6.6)	(0.7)
EBITDA margin (%)	7.5	8.1	8.2	8.4			
Adjusted net profit	**14,166**	**18,856**	**15,268**	**19,640**		**(7.2)**	**(4.0)**
EPS	**4.3**	**5.7**	**4.6**	**5.9**	**#**	**(7.2)**	**(4.0)**

Source: Kotak Institutional Equities estimates

We revise our JLR earnings estimates upwards by 6-15% in FY2013E
JLR earnings revision table, March fiscal year-ends (mn pounds)

	New estimates		Old estimates		% change	
	2012E	2013E	2012E	2013E	2012E	2013E
Volumes (units)	280,047	304,246	266,697	284,464	5.0	7.0
Average realization	42,546	42,545	39,708	39,313	7.1	8.2
Net sales	11,915	12,944	10,590	11,183	12.5	15.7
EBITDA	1,721	1,833	1,518	1,536	13.4	19.3
EBITDA margin (%)	14.4	14.2	14.3	13.7		
Product development	160	180	120	135	33.3	33.3
Depreciation	426	468	426	468		
Adjusted net profit	**910**	**953**	**855**	**832**	**6.4**	**14.5**
EPS (pound)	**0.3**	**0.3**	**0.3**	**0.3**	**6.4**	**14.5**

Source: Kotak Institutional Equities estimates

We revise our consolidated earnings upwards by 5-11% in FY2012-2013E
Consolidated earnings estimates, March fiscal year-ends (Rs mn)

	New estimates			Old estimates		% change	
	2012E	2013E		2012E	2013E	2012E	2013E
Net sales	1,483,334	1,641,495		1,363,103	1,484,602	8.8	10.6
EBITDA	179,840	197,873		166,271	175,019	8.2	13.1
EBITDA margin (%)	12.1	12.1		12.2	11.8		
Adjusted net profit	**83,071**	**91,097**		**79,279**	**82,251**	**4.8**	**10.8**
EPS	**25.0**	**27.4**	**#**	**23.8**	**24.7**	**4.8**	**10.8**

Source: Kotak Institutional Equities estimates

We expect standalone profits CAGR to remain flat over FY2011-2013E

Tata Motors standalone profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	253,541	353,738	478,074	535,544	610,748	711,786
EBITDA	**13,293**	**37,454**	**42,873**	**40,182**	**49,602**	**63,100**
Other income	7,144	2,710	4,140	3,377	3,698	4,050
Interest	(6,737)	(11,038)	(11,440)	(11,460)	(11,280)	(11,130)
Depreciaton	(8,745)	(10,339)	(13,608)	(15,433)	(17,845)	(18,511)
Profit before tax	**4,956**	**18,787**	**21,965**	**16,666**	**24,174**	**37,509**
Extra ordinary income/(expenses)	5,183	9,509	-	-	-	-
Current tax	(150)	-	(84)	(4,500)	(6,527)	(10,127)
Deferred tax	25	(5,895)	(3,763)	2,000	1,209	-
Net profit	**10,013**	**22,401**	**18,118**	**14,166**	**18,856**	**27,381**
Adjusted net profit	**4,831**	**12,892**	**18,118**	**14,166**	**18,856**	**27,381**
Adjusted Diluted EPS (Rs)	**1.9**	**4.6**	**5.4**	**4.3**	**5.7**	**8.2**
Balance sheet (Rs mn)						
Equity	5,141	5,706	6,377	6,377	6,377	6,377
Reserves and Surplus	117,161	143,949	193,756	196,731	204,395	220,585
Deferred tax liability	8,658	15,086	20,232	18,232	17,023	17,023
Total borrowings	131,656	166,259	158,988	152,988	152,988	147,988
Current liabilities	108,355	173,726	162,552	171,681	180,918	193,685
Foreign currency translation difference	1,641					
Total liabilities	**372,612**	**504,726**	**541,905**	**546,008**	**561,701**	**585,657**
Net fixed assets	145,993	164,360	174,756	189,323	201,478	212,966
Investments	129,681	223,369	226,242	203,369	193,369	173,369
Cash	11,418	17,533	24,289	9,467	3,154	8,823
Other current assets	85,499	97,847	116,617	143,849	163,699	190,499
Miscellaneous expenditure	20	1,617	-	-	-	-
Total assets	**372,612**	**504,726**	**541,905**	**546,008**	**561,701**	**585,657**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	2,789	23,165	28,543	24,223	31,794	41,843
Working capital changes	(950)	27,506	(26,463)	(18,103)	(10,614)	(14,033)
Capital expenditure	(40,113)	(23,102)	(23,817)	(30,000)	(30,000)	(30,000)
Free cash flow	**(38,274)**	**27,569**	**(21,737)**	**(23,880)**	**(8,820)**	**(2,190)**
Ratios						
EBITDA margin (%)	5.2	10.6	9.0	7.5	8.1	8.9
Debt/equity (X)	1.1	1.1	0.8	0.8	0.7	0.7
Net debt/equity (X)	1.0	1.0	0.7	0.7	0.7	0.6
RoAE (%)	4.8	9.5	10.4	7.0	9.1	12.5
Book value/share (X)	47.2	51.2	60.2	61.1	63.4	68.3

Source: Company, Kotak Institutional Equities estimates

We estimate consolidated profits to remain flat over FY2011-2013E

Consolidated profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	709,389	925,193	1,231,333	1,483,334	1,641,495	1,845,070
EBITDA	**18,488**	**81,160**	**168,175**	**179,840**	**197,873**	**228,327**
Other income	7,990	416	2,310	6,662	7,202	7,846
Interest	(19,309)	(22,397)	(20,454)	(26,990)	(24,811)	(25,094)
Depreciaton	(25,068)	(38,871)	(46,555)	(61,211)	(68,449)	(71,205)
Profit before tax	**(17,900)**	**20,307**	**102,062**	**98,301**	**111,815**	**139,873**
Extra ordinary income/(expenses)	(3,393)	14,919	2,310	-	-	-
Tax	(3,358)	(10,058)	(12,164)	(15,230)	(20,718)	(28,080)
Minority Interest	(403)	542	528	-	-	-
Net profit	**(25,053)**	**25,711**	**92,736**	**83,071**	**91,097**	**111,793**
Adjusted net profit	**(21,660)**	**10,791**	**90,426**	**83,071**	**91,097**	**111,793**
Adjusted Diluted EPS (Rs)	**(44.9)**	**18.5**	**27.2**	**25.0**	**27.4**	**33.6**
Balance sheet (Rs mn)						
Equity	5,141	5,706	6,377	6,377	6,377	6,377
Reserves and Surplus	54,266	76,359	185,338	257,217	337,123	437,725
Deferred tax liability	6,802	15,796	20,961	20,961	20,961	20,961
Total borrowings	349,739	351,924	327,914	332,500	344,900	336,793
Current liabilities	311,618	417,208	469,838	507,991	539,670	581,323
Total liabilities	**731,595**	**731,596**	**731,597**	**731,598**	**731,599**	**731,600**
Net fixed assets	357,333	385,063	434,931	509,654	567,565	622,719
Goodwill	37,187	34,229	35,848	35,848	35,848	35,848
Investments	12,574	22,191	25,443	41,000	41,000	41,000
Cash	41,213	87,433	109,479	65,036	78,882	92,638
Other current assets	276,062	337,863	400,870	469,650	521,878	587,117
Miscellaneous expenditure	7,226	2,348	6,324	6,324	6,324	6,324
Total assets	**731,595**	**731,596**	**731,597**	**731,598**	**731,599**	**731,600**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	20,939	67,261	152,885	156,496	177,155	200,247
Working capital changes	(13,441)	26,009	(40,484)	(30,628)	(20,550)	(23,584)
Capital expenditure	(207,360)	(84,754)	(81,128)	(127,820)	(126,360)	(126,360)
Free cash flow	**(199,861)**	**8,515**	**31,274**	**(1,951)**	**30,246**	**50,302**
Ratios						
EBITDA margin (%)	2.6	8.8	13.7	12.1	12.1	12.4
Debt/equity (X)	5.9	4.3	1.7	1.3	1.0	0.8
Net debt/equity (X)	5.2	3.2	1.1	1.0	0.8	0.5
Book value (Rs per share)	108	78	45	67	91	121
ROAE (%)	(36.5)	15.3	66.1	36.5	30.0	28.4

Source: Company, Kotak Institutional Equities estimates

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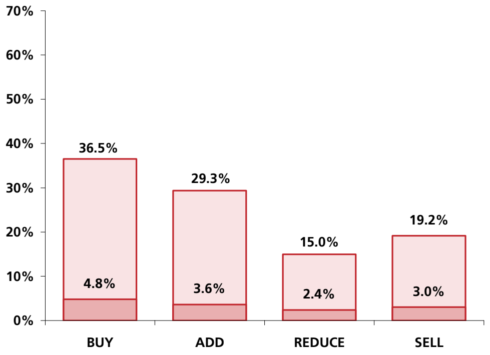

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Source: Kotak Institutional Equities

As of September 30, 2011

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 17.5% returns over the next 12 months.

ADD. We expect this stock to deliver 7.5-17.5% returns over the next 12 months.

REDUCE. We expect this stock to deliver 0-7.5% returns over the next 12 months.

SELL. We expect this stock to deliver less than 0% returns over the next 12 months.

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