Tata Motors Ltd.

Rating Change BUY

Equity | India | Autos/Car Manufacturers
02 January 2013

Think Indian, Buy global: Upgrading from Neutral to Buy

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Raising PO to Rs360

We upgrade Tata Motors from Neutral to Buy and raise our PO by 26% to Rs360. This is solely driven by JLR, reflected in (1) increase in profit forecasts by 15-25% on better sales mix, and (2) consequent re-rating to 4x EV/EBITDA (from 3.3x), implying 20% growth premium (30% EBITDA CAGR) to global peers (10% CAGR). We retain Buy on Class A shares (XTXMF) with our PO raised to Rs234.

JLR: Global transformation underway

Despite falling short of expectations in 1H (161,000 units), we expect JLR (80% of cons EBITDA) to meet full-year sales expectations of 363,000 units (+15.5%) and also sustain momentum over the forecast period. This will be driven by a slew of products with far more market potential and improved pricing than anticipated earlier. We therefore raise our profit estimates by 15-25% over FY14-15.

India business: Amidst downturn but closer to trough

Although the near-term outlook seems uncertain, prompting a sharp cut in core profit forecasts, M/HCV (i.e. truck/bus) which is the key contributor could be closer to trough, in our view. LCV is growing ahead of peers and Utility vehicle (UV) is piggy-backing on structural uptrend. Cars, the often-repeated weak business link, may not recover but lowered expectations are already built into forecasts.

Despite outperformance, key pick in autos

Despite stock outperformance, we justify a Buy rating now because deliverables seem sustainable (profits, cash flows) and valuations still attractive. Risks include global economic slowdown, pricing and currency fluctuations impacting JLR profitability and delayed cyclical recovery in India, currently assumed for FY15.

Estimates (Mar)

(Rs)	2011A	2012A	2013E	2014E	2015E
Net Income (Adjusted - mn)	90,426	143,480	101,068	135,970	170,985
EPS	28.50	45.20	31.84	42.25	53.13
EPS Change (YoY)	653.4%	58.6%	-29.6%	32.7%	25.8%
Dividend / Share	4.00	4.00	3.20	3.60	4.00
Free Cash Flow / Share	10.16	27.01	1.57	47.90	64.05
ADR EPS (US$)*	3.13	4.72	2.90	3.85	4.85
ADR Dividend / Share (US$)*	0.450	0.428	0.301	0.338	0.374

*The dual listed EPS/DPS are Rs.0.50 higher as the DVR shares carry different rights

Valuation (Mar)

	2011A	2012A	2013E	2014E	2015E
P/E	10.88x	6.86x	9.74x	7.34x	5.84x
Dividend Yield	1.29%	1.29%	1.03%	1.16%	1.29%
EV / EBITDA*	7.26x	5.45x	4.80x	3.85x	3.29x
Free Cash Flow Yield*	3.28%	8.71%	0.507%	15.66%	20.95%

* For full definitions of *iQmethod* SM measures, see page 21.

Stock Data

Price (Common / ADR)	Rs310.05 / US$28.34
Price Objective	Rs360.00 / US$31.90
Date Established	02-Jan-2013 / 02-Jan-2013
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs178.35-Rs320.75
Market Value (mn)	US$17,955
Market Value (mn)	Rs984,110
Shares Outstanding (mn)	3,174.0 / 634.8
Average Daily Volume	13,027,500
BofAML Ticker / Exchange	TENJF / BSE
BofAML Ticker / Exchange	TTM / NYS
Bloomberg / Reuters	TTMT IN / TAMO.BO
ROE (2013E)	26.9%
Net Dbt to Eqty (Mar-2012A)	61.2%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	68.0%

Key Changes

(Rs)	Previous	Current
Inv. Opinion	C-2-7	C-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	285.00	360.00
2013E Rev (m)	2,101,384.2	2,104,850.6
2014E Rev (m)	2,434,958.4	2,493,993.2
2015E Rev (m)	2,697,308.9	2,795,786.2
2013E EPS	34.24	31.84
2014E EPS	39.75	42.25
2015E EPS	43.25	53.13
2013E EBITDA (m)	273,189.1	269,214.3
2014E EBITDA (m)	328,911.5	335,783.7
2015E EBITDA (m)	368,587.6	392,405.9

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Refer to important disclosures on page 22 to 25. Analyst Certification on Page 19. Price Objective Basis/Risk on page 19. Link to Definitions on page 19.

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iQprofile SM Tata Motors Ltd.

Key Income Statement Data (Mar)	2011A	2012A	2013E	2014E	2015E
(Rs Millions)					
Sales	1,221,279	1,656,545	2,104,851	2,493,993	2,795,786
Gross Profit	178,150	237,005	269,214	335,784	392,406
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	121,620	166,859	159,725	202,465	237,049
Net Interest & Other Income	(19,558)	(23,205)	(15,064)	(10,542)	2,079
Associates	0	0	0	0	0
Pretax Income	102,062	143,654	144,662	191,923	239,127
Tax (expense) / Benefit	(12,164)	400	(44,099)	(56,099)	(68,355)
Net Income (Adjusted)	90,426	143,480	101,068	135,970	170,985
Average Fully Diluted Shares Outstanding	3,173	3,174	3,174	3,218	3,218
Key Cash Flow Statement Data					
Net Income	90,426	143,480	101,068	135,970	170,985
Depreciation & Amortization	56,531	70,146	109,489	133,319	155,357
Change in Working Capital	(10,377)	102,530	14,170	99,585	77,784
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Cash Flow from Operations	136,580	316,157	224,728	368,874	404,127
Capital Expenditure	(104,339)	(230,421)	(219,742)	(214,729)	(197,998)
(Acquisition) / Disposal of Investments	(3,251)	(63,735)	(369)	(335)	(638)
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(107,590)	(294,156)	(220,111)	(215,064)	(198,636)
Shares Issue / (Repurchase)	671	(30)	32	88	0
Cost of Dividends Paid	(14,670)	(14,637)	(11,663)	(13,296)	(14,768)
Cash Flow from Financing	(7,190)	117,619	50,571	(56,474)	(53,985)
Free Cash Flow	32,241	85,735	4,985	154,146	206,129
Net Debt	218,435	204,659	211,034	64,396	(127,126)
Change in Net Debt	(45,809)	(80,493)	6,375	(146,638)	(191,522)
Key Balance Sheet Data					
Property, Plant & Equipment	434,931	562,125	672,378	753,788	796,429
Other Non-Current Assets	67,614	194,840	195,209	195,544	196,182
Trade Receivables	68,774	82,368	127,674	145,805	158,029
Cash & Equivalents	109,479	182,381	237,568	334,904	486,411
Other Current Assets	332,096	432,112	511,840	563,830	597,594
Total Assets	1,012,894	1,453,826	1,744,670	1,993,872	2,234,643
Long-Term Debt	327,914	387,041	448,603	399,300	359,285
Other Non-Current Liabilities	20,961	46,237	46,237	46,237	46,237
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	469,838	685,979	825,183	994,890	1,118,660
Total Liabilities	818,714	1,119,256	1,320,022	1,440,426	1,524,182
Total Equity	194,181	334,571	424,648	553,446	710,461
Total Equity & Liabilities	1,012,894	1,453,826	1,744,670	1,993,872	2,234,643
iQmethod* SM - Bus Performance					
Return On Capital Employed	22.9%	24.5%	14.5%	16.6%	18.2%
Return On Equity	66.1%	54.8%	26.9%	28.0%	27.3%
Operating Margin	10.0%	10.1%	7.6%	8.1%	8.5%
EBITDA Margin	14.6%	14.3%	12.8%	13.5%	14.0%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	1.5x	2.2x	2.2x	2.7x	2.4x
Asset Replacement Ratio	2.2x	4.1x	3.0x	2.4x	1.9x
Tax Rate (Reported)	11.9%	NM	30.5%	29.2%	28.6%
Net Debt-to-Equity Ratio	112.5%	61.2%	49.7%	11.6%	-17.9%
Interest Cover	5.1x	5.6x	5.1x	6.4x	7.2x
Key Metrics					

* For full definitions of *iQmethod* SM measures, see page 21.

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, Lucknow, Sanand and Pantnagar. Jaguar-Land Rover are key wholly-owned subsidiaries of the company.

Investment Thesis

We rate Tata Motors Buy due to sustainable growth in JLR, which is the prime driver of stock valuations. Although India business remains uncertain, we could be near trough across key operating segments. We also retain our Buy rating on Class A shares i.e. DVRs due to compelling valuations at 44% discount to ordinary shares.

Stock Data

Shares / ADR	5.00
Price to Book Value	2.3x

Key Changes (ADR)

(US$)	Previous	Current
Inv. Opinion	C-2-7	C-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	25.30	31.90
2013E EPS	3.12	2.90
2014E EPS	3.63	3.85
2015E EPS	3.95	4.85

Upgrading to Buy

We upgrade Tata Motors from Neutral to Buy and raise our PO by 26% to Rs360. This is solely driven by overseas subsidiary JLR, reflected in (1) increase in profit forecasts by 15-25% over FY14-15E, and (2) consequent re-rating to 4x adjusted EV/EBITDA (from 3.3x), implying 20% growth premium to global peers.

Raising PO to Rs360

We raise our PO (by 26%) to Rs360, which is still based on SOTP as follows:

- JLR valued at 4x EV/EBITDA, 20% growth premium to global and European peers, and adjusted for R&D expenses to align with global accounting standards
- India business valued at 7.5x EV/EBITDA, which is at a slight discount to historical trends during early stage of recovery cycle
- Operating subsidiaries valued in line with comparables within the space, applying 20% holding company discount.

Table 1: Sum-of-the-parts valuation

	Methodology	Imputed Multiple (x)	Value Rs/share	Earlier Rs/share
India business (standalone)	EV/EBITDA	7.5	59	76
Jaguar - Land Rover (JLR)	EV/EBITDA	4.0	283	191
Subsidiaries			22	22
- Tata Daewoo	EV/EBITDA	5.0	1	1
- TML Drivelines	EV/EBITDA	7.5	4	7
- Telcon (40%)	P/E	15.0	2	2
- TACO (26%)	P/E	15.0	2	2
- Tata Technologies (82%)	P/E	15.0	5	4
- Tata Finance	P/ Adj NAV	2.0	8	6
Less: Holding co discount		*20.0%*	*(4)*	*(4)*
Consolidated Value/Share			360	285

Source: BofA Merrill Lynch Global Research estimates

Revising forecasts

Over FY14-15E, we raise Tata Motors' consolidated profit forecasts by 6-22%, respectively, solely driven by JLR, which more than offsets cuts in India business.

Table 2: Revised consolidated estimates

	Earlier		New		Revision	
Financials (Rs bn)	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Sales	2,435	2,697	2,494	2,796	2.4%	3.7%
EBITDA	329	369	336	391	2.1%	6.0%
EBITDA Margin	13.5%	13.7%	13.5%	14.0%	-4bps	31bps
PAT	128	139	136	170	6.3%	21.9%
EPS	39.8	43.3	42.2	52.7	6.3%	21.9%

Source: BofA Merrill Lynch Global Research estimates

Raising JLR estimates...

We raise JLR estimates by 15-25% over FY14-15, largely driven by better sales mix favouring new pricier products compared to existing legacy models, leading to higher ASPs and improved margins.

Table 3: JLR revision to estimates

	Earlier			New			Revision		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Sales volume ('000s)									
Jaguar	51	57	64	49	60	70	-3.8%	5.3%	9.6%
Land Rover	314	358	396	314	349	380	-0.1%	-2.7%	-4.1%
Total	365	415	460	363	409	450	-0.6%	-1.6%	-2.2%
ASP (£/vehicle)	44,730	46,491	46,653	45,104	48,873	50,188	0.8%	5.1%	7.6%
(£ mn)									
Net Sales	16,341	19,301	21,448	16,381	19,972	22,567	0.2%	3.5%	5.2%
EBITDA	2,413	2,926	3,255	2,444	3,082	3,557	1.3%	5.3%	9.3%
EBITDA Margin	14.8%	15.2%	15.2%	14.9%	15.4%	15.8%	15bps	27bps	58bps
Adj EBITDA (for R&D)	1,580	2,057	2,290	1,608	2,243	2,731	1.8%	9.0%	19.2%
PAT	1,049	1,190	1,268	1,081	1,374	1,588	3.1%	15.4%	25.2%
EPS	0.33	0.37	0.39	0.34	0.43	0.49	3.1%	15.4%	25.2%

Source: BofA Merrill Lynch Global Research estimates

...more than offsets cut in India business

We cut our profit forecasts sharply for FY14E, to factor in (1) lowered volume assumptions, across key operating segments, and (2) negative leverage of slower growth rates.

Table 4: Revision to standalone estimates

	Earlier			New			Revision		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Sales	552.4	616.1	684.8	535.0	593.1	672.5	-3.1%	-3.7%	-1.8%
EBITDA	38.3	46.4	53.2	32.9	41.9	52.7	-14.0%	-9.7%	-0.9%
EBITDA Margin	6.9%	7.5%	7.8%	6.2%	7.1%	7.8%	-78bps	-46bps	7bps
PAT	9.8	16.1	19.3	20.4	30.3	49.1	107.8%	88.4%	154.3%
EPS (Rs.)	3.1	5.0	6.0	6.4	9.4	15.3	107.8%	88.4%	154.3%
Core EPS (Rs.)	1.1	2.5	3.8	(0.6)	1.3	3.8	-151.7%	-47.4%	0.0%

Source: BofA Merrill Lynch Global Research estimates

Financial health comfortable

Tata Motors' net automotive debt is lower at Rs116bn (vs Rs162bn last year), thanks to JLR which has turned cash surplus (GBP437mn/Rs39bn). Despite maintaining capex at similar levels of GBP2bn/year and in the likely situation of India business demand continuing to remain subdued next year, we still expect consolidated entity to achieve zero debt status by FY15E.

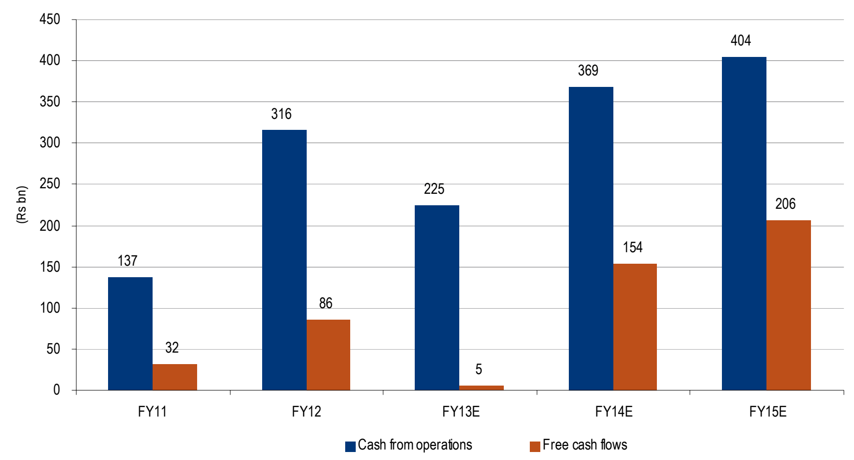
Capex impact to moderate

Tata Motors' capital expenditure is driven by JLR, pegged annually at GBP2bn (13% of sales), which is much above global peers (9-10%) to close the gap on various parameters, ie, product, emissions, reach, etc. We expect the situation to normalize from FY15 as increased sales and resultant stronger operating cash flows will likely mitigate this perceived risk. In the case of the India business, the planned Rs30bn spend could see a cutback if slowdown continues.

Strong and sustainable cash flows

We expect Tata Motors to generate stronger operating cash flows over our forecast period, led by JLR as new project contribution starts kicking in. India business too is expected to recover to align with better cyclical prospects. Significantly, these trends will be sustainable as capex moderates. We forecast RoE to improve to 28% from 26.9%.

Chart 1: Tata Motors expected to generate strong cash flows



Source: BofA Merrill Lynch Global Research estimates

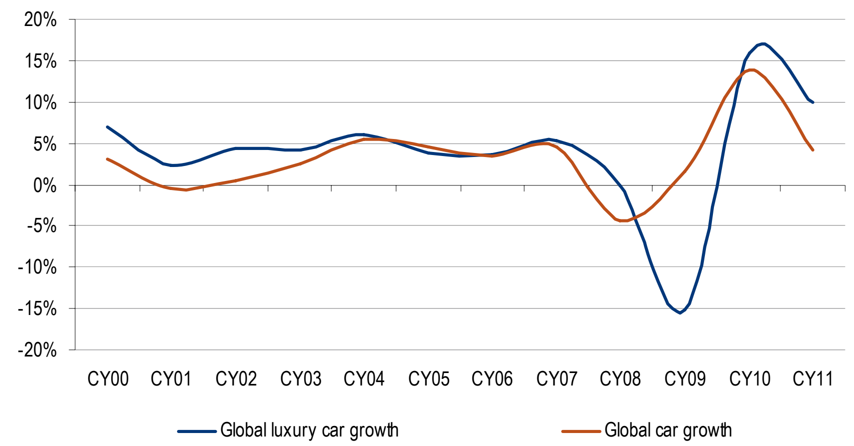
JLR: Global transformation underway

We expect JLR to meet full-year sales expectations of 363,000 units (+15.5%) and sustain similar momentum over the forecast period. This will be driven by a slew of new products with far more market potential and improved pricing than expected earlier. So, we raise our profit estimates by 15-25% over FY14-15.

Luxury car market has outperformed

Over the past decade, global luxury car market has grown slightly ahead of overall car market. Over the past 3 years, the differential has widened with luxury cars well ahead at 13% CAGR vs global cars at 9% CAGR. We expect this structural trend to continue, due to (1) shift in demand from mature developed to emerging BRIC countries, and (2) rising affluence of consumers in these economies. JLR sales grew 27% annually during this period, yet luxury car market share remains miniscule at ~4%.

Chart 2: Luxury cars have outperformed overall car market

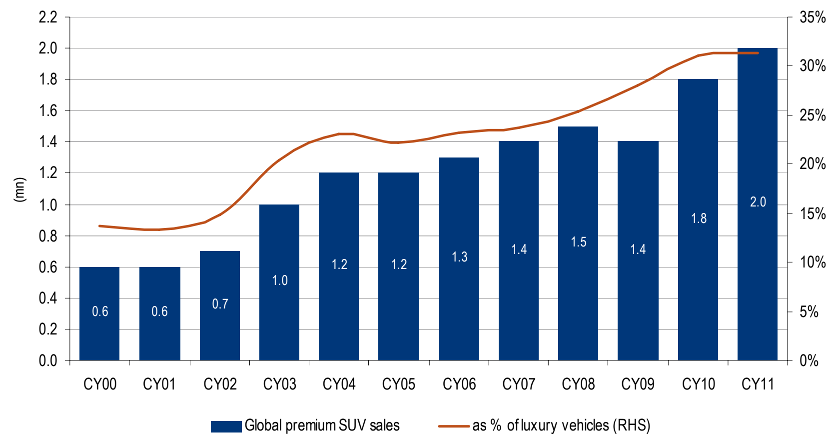


Source: IHS Automotive, BofA Merrill Lynch Global Research estimates

SUVs have led to stronger demand

Within the luxury car market, premium SUVs registered ~13% CAGR over the past decade and thereby more than doubled the segmental share to ~31%. This reflects shifting consumer preferences to spacious yet sportier vehicles which also have utilitarian value. JLR enjoys relatively stronger presence with ~12% share in premium SUV market.

Chart 3: Shifting customer preference towards SUV's

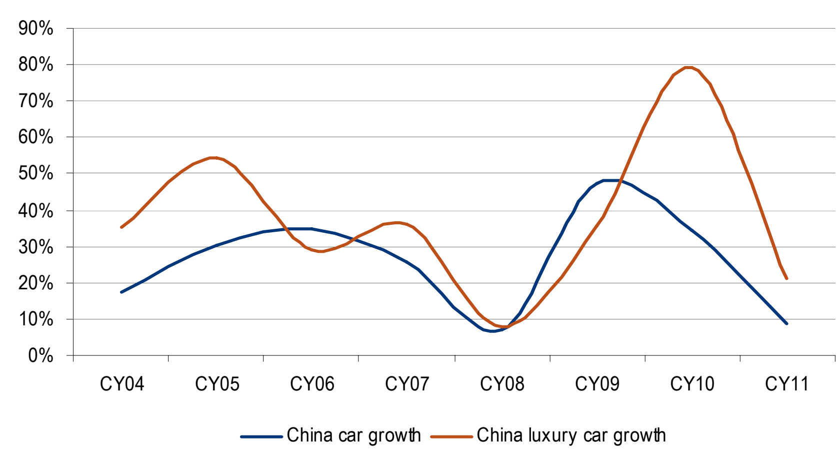


Source: IHS Automotive, BofA Merrill Lynch Global Research estimates

China has been key driver

China has been the fastest growing car market over the past decade, largely driven by the luxury car market. As a result, China now drives around one-sixth of global car and ~40% of luxury car demand. We expect similar shift in other emerging nations (Brazil, Russia and India) to drive a stronger growth in this segment. At ~25%, China is now the single largest contributor of JLR sales.

Chart 4: China driving global car demand

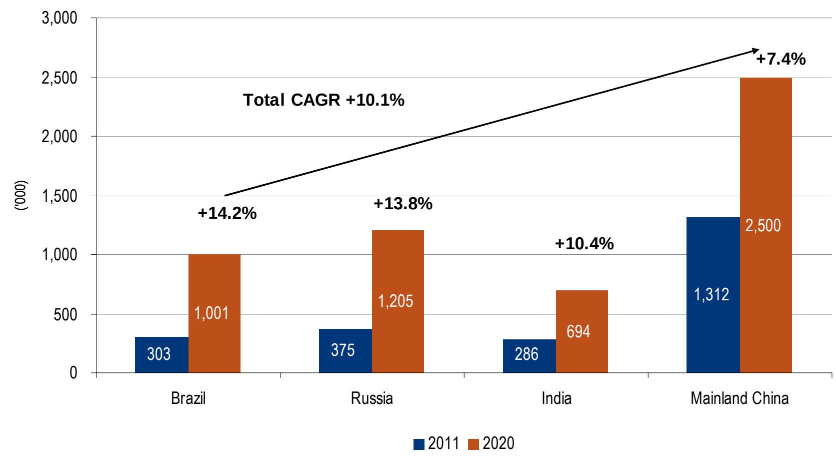


Source: IHS Automotive, BofA Merrill Lynch Global Research estimates

Increasing affluence in emerging markets

As per industry sources, this decade will likely see the sharpest rise in global wealth in emerging market households. Chart 6 shows an estimated 10.1% CAGR in millionaires amongst BRIC nations, which should drive consumption for luxury goods such as cars.

Chart 5: Growing number of millionaires in emerging markets



Source: Industry, BofA Merrill Lynch Global Research estimates

JLR: Geared to expand presence

JLR has chalked out an extensive investment plan spanning next 5 years towards product development, expansion of existing facilities, and new projects (engines, assembly units). We expect 11.3% volume CAGR over FY13-15E, which is about 2x global car industry estimates.

Product pipeline more exciting than ever

Commencing this year, JLR has 30 product initiatives in the pipeline which include new platforms as well as model replacements to expand addressable market, and thereby drive additional volumes. These include:

- Platform upgrades of flagship brands, which offer higher customer benefits vs existing models
- Variants of existing models to plug product gaps in specific markets
- New segments to achieve scale closer to global competitors

New upgraded platform rolled out

New Range Rover was launched in Sept as part of full aluminum architecture which will also be seen later in Range Rover Sport and Discover (Sept'13/14). This platform offers superior value proposition, ie, higher fuel efficiency, increased power to weight ratio to existing range. Ramp-up has been slow as it involved replacing part of existing facility and training workers on new production process. Although wholesale dispatch was impacted initially, the situation is now normalized and we expect retail sales to pick up from Jan 2013.

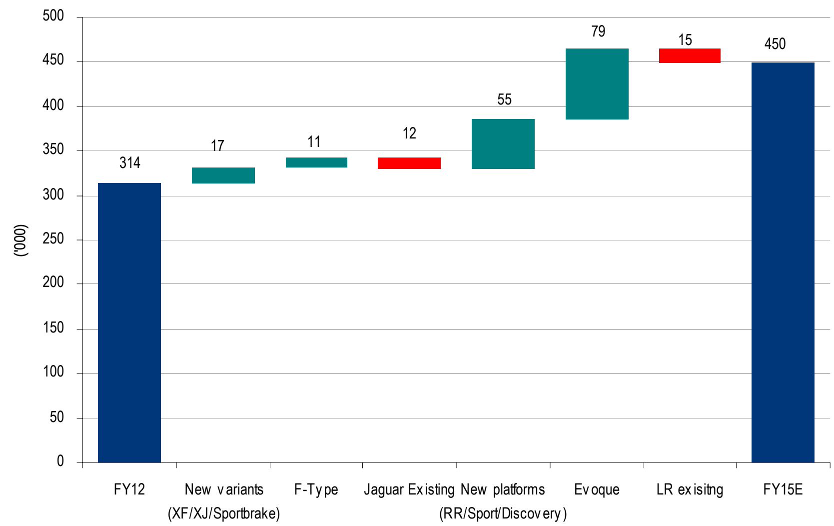
Defender model to be replaced

Defender, where sales are on the decline (6-8% of Land Rover portfolio), faces technological obsolescence as well as environmental issues which are restricting an off-take both in North America and Europe. This model will also move to a new platform in FY15E, and thereby offer much improved product characteristics compared with its dated version.

Jaguar variants to plug product gaps
Historically, Jaguar has lagged competition both due to lack of franchise as well as an incomplete portfolio. New variants of XF/XJ are being available from this winter with smaller 2L petrol engine (40% of addressable market in China) and premium all wheel drive (AWD) option (60% of addressable market in the US). These initiatives should plug product gaps and increase market opportunities.

Foray into newer segments
As Land Rover did with the Evoque model, Jaguar will add brand new products such as F-type coupe/convertible in June'13, Sports brake in Oct'13 (40% of UK/Europe market) and eventually the small car (Sep'14). Jaguar is completely absent in these segments and proper execution can drive sizeable volumes.

Chart 6: New launches to drive growth



Source: BofA Merrill Lynch Global Research estimates

Momentum to pick up from 2H
Despite falling short of expectations in 1H (~161,000 units) due to model changeover, plant alterations and training to incorporate new processes, we expect JLR to largely meet full-year sales expectations of 363,000 units. Key driver will be retailing of new products from 4Q.

Raising forecasts
We sharply raise our JLR profit estimates by 15-25% over FY14-15E, mainly driven by better sales mix on shift to new pricier products compared to existing legacy models, leading to higher ASPs and improved margins.

We expect sale to beat industry trends
We expect JLR to register 17% sales CAGR over FY13-15E, which compares to estimates of ~8% sales CAGR for global peers. This will be led by 11.3% CAGR in volumes, also near 2x global peer estimates.

Table 5: JLR volume assumptions

	Volume ('000)			Growth		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Jaguar	49	60	70	-9.3%	22.4%	16.3%
Land Rover	314	349	380	20.7%	11.0%	9.0%
Total	363	409	450	15.5%	12.5%	10.0%

Source: BofA Merrill Lynch Global Research estimates

Margins likely to expand

We raise our EBITDA margin assumptions by 30-60bp to 15.4% in FY14E and 15.8% in FY15E, driven by a greater-than-anticipated shift to newer models leading to 5%-7% higher pricing assumptions.

Table 6: Sales mix to improve

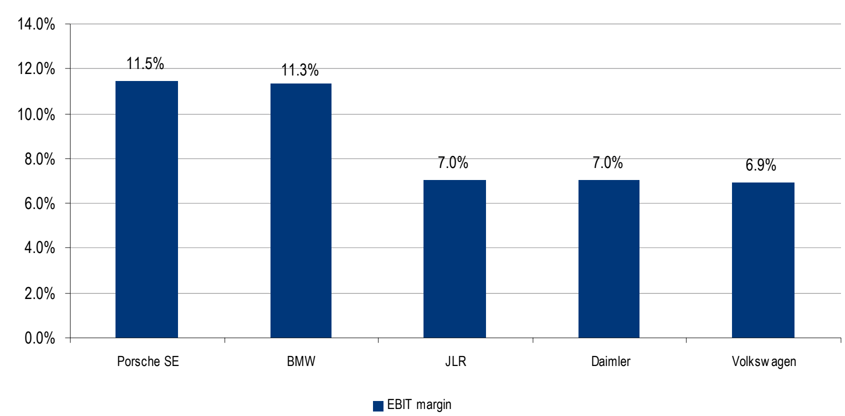
	FY14E		FY15E	
Land Rover	Earlier	Revised	Earlier	Revised
New platform (RR/Sport/Discovery)	46.1%	47.2%	43.3%	49.7%
Evoque	37.0%	37.7%	39.7%	36.7%
Existing/legacy models (Freelander, Defender)	17.0%	15.1%	17.0%	13.6%
Total	100.0%	100.0%	100.0%	100.0%
Jaguar				
New variants (XF/XJ 2L & AWD/Sports brake)	38.6%	43.9%	47.1%	52.2%
F-Type	9.0%	13.6%	11.0%	15.8%
Existing legacy models (XF/XK/XJ)	52.4%	42.5%	41.9%	32.0%
Total	100.0%	100.0%	100.0%	100.0%
Blended ASP (£)	46,491	48,873	46,653	50,188
Revision (%)		*5.1%*		*7.6%*

Source: BofA Merrill Lynch Global Research estimates

Margins still at lower end of global majors

We expect JLR EBIT margins to average 7% over FY13-15E, which is still towards the lower end of range as compared to global majors. This leaves scope for further expansion on enhanced brand visibility and ramp up in volumes.

Chart 7: EBIT margin comparison



Source: BofA Merrill Lynch Global Research estimates

Rising profit trajectory

Over FY13-15E, we expect JLR to register 20% profit CAGR in tandem with operating performance, led by execution of product pipeline.

Table 7: JLR P&L

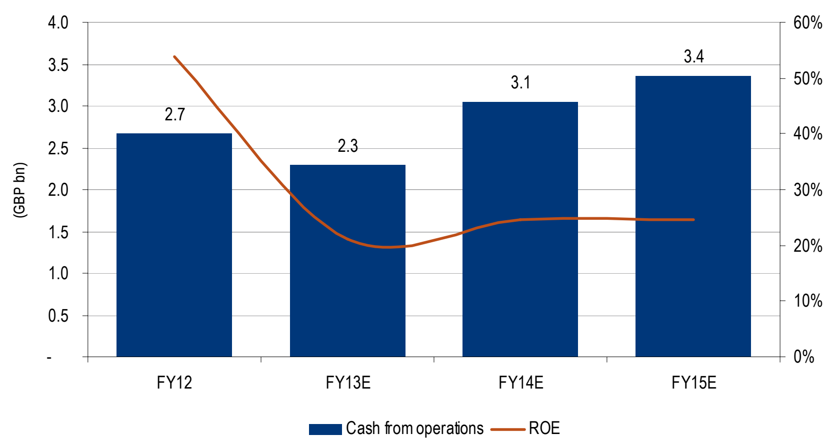
(GBP mn)	FY12A	FY13E	FY14E	FY15E
Net sales	13,512	16,381	19,972	22,567
COGS	8,501	10,055	12,506	14,439
Gross Profit	5,010	6,326	7,466	8,228
Gross margin	*37.1%*	*38.6%*	*37.4%*	*36.5%*
Other operating expenses	2,783	3,882	4,384	4,671
R & D expenses	200	390	447	523
EBITDA	2,027	2,054	2,634	3,034
EBITDA margin	*16.5%*	*14.9%*	*15.4%*	*15.8%*
EBIT	1,562	1,439	1,832	2,074
EBIT margin	*11.6%*	*8.8%*	*9.2%*	*9.2%*
PBT	1,507	1,502	1,908	2,206
Tax	26	421	534	618
Net profit	1,481	1,081	1,374	1,588
EPS (£)	0.47	0.34	0.43	0.49

Source: BofA Merrill Lynch Global Research estimates

Rising cash flows and RoE

We expect JLR to register strong operating cash flows, driven by rising profits and steady capex. This also reflects in improving RoEs, up to ~25% from current 20%.

Chart 8: JLR – Cash from operations/ROE trend



Source: BofA Merrill Lynch Global Research estimates

Parameters adjusted for R & D spend

Although our forecasts are based on Indian accounting standards which is similar to India business, we have adjusted parameters to re-align R & D spend and amortization with global car companies. This reflects on margins (EBITDA/EBIT) and profits and accordingly used whenever compared with global peers.

Table 8: JLR accounting adjustment to align with European peers

	FY12	FY13E	FY14E	FY15E
Total R&D	900	1,392	1,398	1,377
Capitalized R&D	700	1,002	951	854
Capitalization rate (%)	77.8%	72.0%	68.0%	62.0%
R&D expensed (balance)	200	390	447	523
R & D expense for global peers	540	835	839	826
R&D undercharged	340	446	391	303
Reported EBITDA	2,027	2,054	2,634	3,034
Adj EBITDA (for R&D)	1,687	1,608	2,243	2,731
yoy change	*37.3%*	*-4.7%*	*39.5%*	*21.7%*
Adj EBITDA margin	12.5%	9.8%	11.2%	12.1%
Reported EBIT	1,562	1,439	1,832	2,074
Adj EBIT	*1,222*	*994*	*1,441*	*1,771*
Adj EBIT margin	9.0%	6.1%	7.2%	7.8%
EPS (£)	0.47	0.34	0.43	0.49
Adj EPS (£)	*0.36*	*0.20*	*0.31*	*0.40*
yoy change	*47.8%*	*-44.3%*	*52.4%*	*30.8%*

Source: BofA Merrill Lynch Global Research estimates

India business: Amidst downturn

Tata Motors India business has been weaker than anticipated and profitability is under pressure. We therefore cut our core profit forecasts (ex-JLR dividend) over FY14-15E to reflect possible delay in recovery, now assumed only in FY15.

Industry outlook weak near term

Tata Motors key business segments i.e. CVs, PVs are likely to exhibit weak demand trends over next few quarters, mainly due to macro-headwinds (weak investment cycle, low manufacturing GDP, higher interest rate). We now expect muted revival next fiscal and fully blown recovery only in FY15E, driven by (1) lag impact of cut in interest rates leading to improved sentiment, (2) regulatory clearances eg, mining ban etc and (3) recovery in core manufacturing sectors.

Table 9: Industry growth FY13E-15E

	FY13E	FY14E	FY15E
CV's of which	3%	12%	20%
M/HCVs	-20%	10%	20%
LCVs	15%	15%	20%
PV's of which	10%	15%	20%
Cars	0%	10%	20%
UVs	45%	25%	20%

Source: BofA Merrill Lynch Global Research estimates

Tata Motors: Mixed trends

Tata Motors' outlook is linked to industry, especially where the company enjoys dominant franchise i.e. CVs, and increasingly towards own initiatives in a growing competitive environment. We cut our volume and growth expectations but expect the company to revert to normalized trends in FY15.

Table 10: Segmental volume and growth assumptions

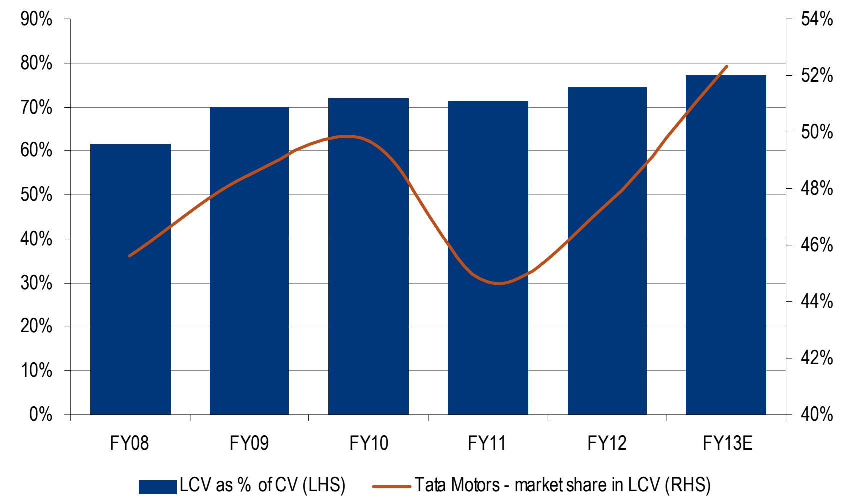
	Volumes ('000)			Growth rate (%)		
	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
Comm Vehicles (CVs)	564	647	749	5.4%	14.6%	15.8%
LCVs	431	500	580	17.5%	16.0%	16.0%
MHCVs	133	147	168	-21.0%	10.0%	15.0%
Pass Vehicles (PVs)	286	307	347	-7.3%	7.2%	13.3%
Cars (incl. Nano)	230	245	280	-10.7%	6.5%	14.1%
UVs	56	61	67	10.0%	10.0%	10.0%
Domestic total	850	953	1,096	0.8%	12.1%	15.0%
Exports	61	66	72	-3.3%	8.5%	8.7%
Total	911	1,019	1,168	0.5%	11.8%	14.6%

Source: BofA Merrill Lynch Global Research estimates

LCVs: Secular trends, advantage Tata Motors

This segment has been resilient to economic slowdown, with industry sales up ~11% YTD. Tata Motors has increased dominance with 350bp lift in market share at 49.5%, driven by early mover advantage and new product launches. We expect the industry to sustain mid-teens growth over the forecast period on sustained rise in applications and shift from other segments. Tata Motors should at least maintain its position, thanks to additional capacity, in our view.

Chart 9: LCVs: Tata Motors' improving market share trends

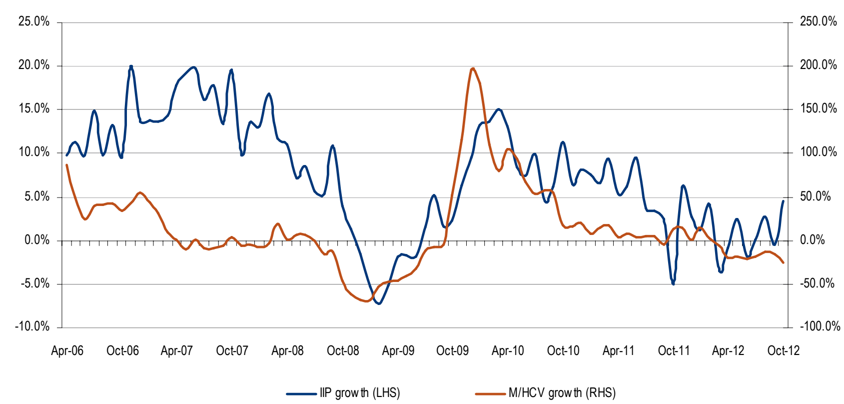


Source: SIAM, BofA Merrill Lynch Global Research estimates

M/HCVs: Dragged down by cycle, near bottom

We expect M/HCV i.e. truck/bus demand to contract ~20% this fiscal, which is far worse compared with 15% YoY decline estimated earlier. Also, early recovery seems unlikely due to low freight availability and no pick-up in investment cycle. Tata Motors has fared worse than competition and seems likely to lag peers this fiscal mainly due to over-assessment of demand and subsequent de-stocking. Although sales will likely lag peers this fiscal, we expect rebound closer to industry average in FY14, driven by solid franchise and pan-India presence.

Chart 10: Tata Motors M/HCV volumes vs. IIP growth



Source: Company data, BofA Merrill Lynch Global Research estimates

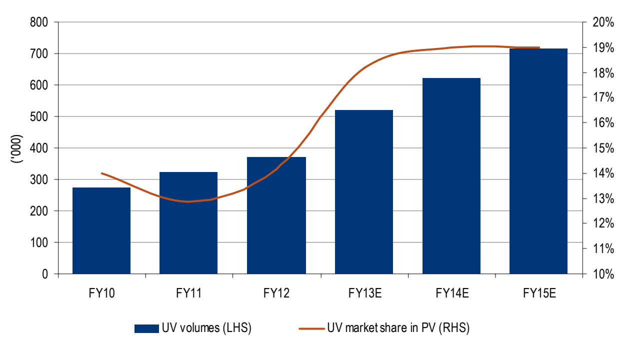
Cars: No expectations on weak franchise

Demand has stayed weak for the second successive year, dragged down by inflationary pressures and high financing rates. Although diesel-powered vehicles have fared better, Tata Motors has been unable to ride this advantage as legacy brands (*Indica, Indigo*) are losing franchise amidst rising competition and mini car Nano is unable to ramp up despite niche positioning. We do not expect any marked turnaround as platform upgrade in unlikely before 2015/16 and in the interim, upgrades/variants no longer excite the customer.

Utility Vehicles: Slight benefit of uptrend

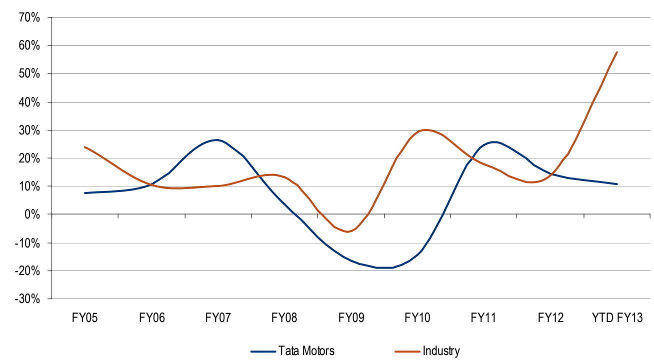
We expect industry sale to double over the next three years, driven by structural reasons (1) shifting customer preference to spacious, powerful yet sporty vehicles, and (2) new product excitement from global majors. Tata Motors' lack of focus and resultant loss of franchise has pulled it down to a marginal player. Recent product initiatives such as Safari Storme, Sumo Grande have come in late and do not count enough. We expect the company to lag peers at 10% CAGR.

Chart 11: UV's structural market share gains



Source: BofA Merrill Lynch Global Research estimates

Chart 12: UV segment growth – Tata Motors vs. Industry



Source: BofA Merrill Lynch Global Research estimates

Sales and profitability close to trough

Our revised profit estimates are driven by lowered volumes. Dividend from JLR will prop overall earnings and core profit should rebound from low base.

Table 11: Standalone P&L

(Rs mn)	FY12A	FY13E	FY14E	FY15E
Net sales	543,066	534,993	593,140	672,482
Total Operating expenses	498,948	502,060	551,238	619,758
EBITDA	44,118	32,933	41,902	52,724
EBITDA margin	*8.1%*	*6.2%*	*7.1%*	*7.8%*
Other income (exp)	5,741	27,877	32,485	46,166
Interest income (exp)	(12,186)	(14,493)	(13,634)	(13,152)
Depreciation	(18,410)	(20,776)	(22,937)	(24,348)
Exceptional gains (losses)	(5,852)	-	-	-
PBT	13,410	25,540	37,816	61,390
Tax	(988)	(5,108)	(7,563)	(12,278)
Reported Net profit	12,422	20,432	30,253	49,112
Net profit	18,275	20,432	30,253	49,112
EPS (Rs.)	5.76	6.44	9.40	15.26
Core EPS (Rs.)	4.08	(0.59)	1.33	3.78

Source: Company data, BofA Merrill Lynch Global Research estimates

Valuation: Growth premium likely

We retain EV/EBITDA as primary valuation tool for Tata Motors, most suited to even out volatility of highly cyclical business constituents. Our SOTP-based PO of Rs360, an upward revision of 26%, values (1) JLR at 4x, a 20% growth premium (30% EBITDA CAGR) over imputed multiple of global peers (10% CAGR), and (2) India business at 7.5x, similar to historical average during early stages of recovery cycle.

Stock has outperformed

Over the past year, Tata Motors has been one of the stronger performers compared to the broader market, but only slightly better than four wheeler autos. Despite this, we rate Tata Motors as one of our key picks in autos over next 12 months. This is because the deliverables seem sustainable (profits, cash flows) and valuations still attractive.

Table 12: Price performance

	% change				
	1m	3m	6m	12m	YTD
M&M	2.5	11.2	36.3	34.6	38.6
Maruti Suzuki	-0.8	12.8	33.0	52.7	61.2
Tata Motors	16.3	16.3	24.1	63.9	71.3
Average	6.0	13.4	31.1	50.4	57.0

Source: Bloomberg

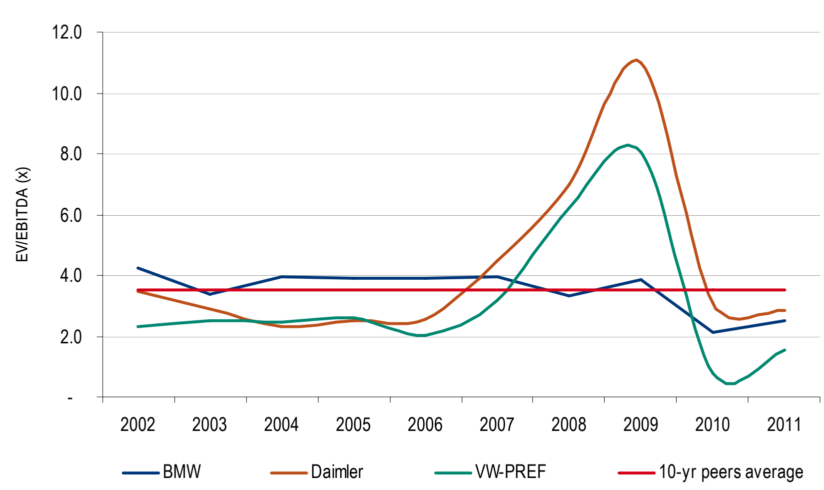
JLR: Main driver of value

Our imputed value of JLR at Rs283/share (earlier Rs191), is driven by (1) increased EBITDA/profit forecasts, and (2) higher imputed multiple of 4x EV/EBITDA (vs 3.5x), which is equivalent to 20% growth premium over global and European peers.

Sector trades at slight discount to historical average

Global automakers have traded at long-term average of 3.5x EV/EBIDTA. The sector presently trades at a slight discount reflecting slower growth and challenging environment.

Chart 13: Global peers: Historic EV/EBITDA average



Source: BofA Merrill Lynch Global Research estimates

Industry-beating growth to drive valuation premium

Over FY13-15E, adjusted for amortization of R&D expenses to align with global standards we expect JLR to register ~30% EBIDTA CAGR. This compares favorably to 10% CAGR for global/European peers. We thereby justify 4x EV/EBITDA, a 20% growth premium to global peers.

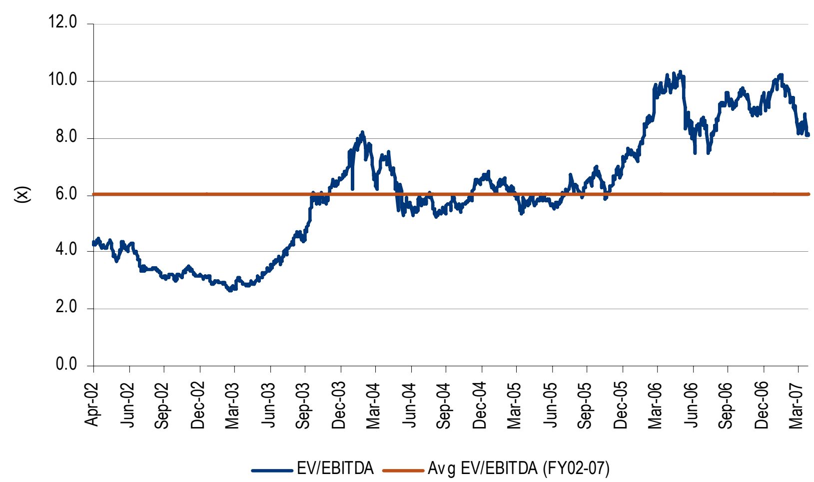
India business: Less relevant today

Our imputed value of India business at Rs59/share (down from earlier Rs76), is driven by (1) lower EBITDA/profit forecasts to align with volumes, and (2) slightly higher multiple of 7.5x EV/EBITDA (earlier 6.5x), on expectations of cyclical recovery from lower earnings base.

Stock has tracked CV cycle

Prior to JLR acquisition, Tata Motors tracked the CV cycle, which was the primary sales constituent and profit contributor. Over a cycle, the stock has averaged 6x EV/EBITDA.

Chart 14: Tata Motors' 1-year forward EV/EBITDA



Source: BofA Merrill Lynch Global Research estimates

PO based on early recovery cycle

During early stages of recovery, the stock trades at valuation multiples (being inversely proportional to earnings which have bottomed out). Our PO is based on early recovery cycle 7.5x EV/EBITDA.

Table 13: Global Auto comparison

	Rating	Price	Mkt Cap	EBITDA CAGR	EPS CAGR	EV/EBITDA (x)			PE(X)			P/B (x)			ROE		
	(Lcl crncy)	(Lcl crncy)	(US$ mn)	FY13-15E	FY13-15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E	FY13E	FY14E	FY15E
India																	
Ashok Leyland	Buy	27	1,308	18%	36%	5.9	5.0	4.3	12.8	9.7	6.9	1.6	1.5	1.3	12.9%	16.0%	20.1%
Eicher Motors	Underperform	2,803	1,380	32%	33%	12.3	9.3	7.1	24.2	17.5	13.7	4.3	3.7	3.3	19.4%	22.9%	25.4%
Maruti Suzuki	Buy	1,500	8,269	41%	39%	10.8	6.7	5.4	23.0	14.6	12.0	2.6	2.2	1.8	11.8%	16.2%	16.7%
M&M	Buy	17	9,937	17%	23%	7.2	6.3	5.2	13.8	11.0	9.1	2.7	2.3	1.9	21.5%	22.5%	22.6%
Tata Motors*	Buy	70	4,026	21%	137%	7.3	4.9	2.7	37.5	13.6	6.7	1.1	1.0	0.8	10.2%	14.6%	20.8%
Weighted Average				26%	48%	8.6	6.3	4.9	21.2	12.9	9.8	2.4	2.1	1.7	15.9%	18.8%	20.4%
Europe																	
JLR	Buy	240	13,867	30%	41%	5.0	3.3	2.3	13.6	8.9	6.9	2.5	1.9	1.5	21.3%	24.6%	24.6%
BMW	Buy	73	63,171	1%	2%	2.9	2.9	2.8	9.3	9.0	8.8	1.6	1.4	1.3	19.5%	17.8%	16.6%
Daimler	Buy	41	58,235	10%	15%	2.4	2.2	2.0	8.9	8.0	6.6	0.9	0.9	0.8	11.5%	11.2%	12.6%
Fiat Spa	Underperform	4	6,092	2%	22%	3.2	3.1	3.0	14.2	12.6	9.5	0.3	0.3	0.2	2.6%	2.1%	2.4%
Porsche SE	Buy	62	24,982	12%	-24%	7.6	9.0	8.1	2.7	5.1	4.7	0.6	0.5	0.5	24.4%	10.9%	10.7%
VW-PREF	Buy	172	105,889	14%	-24%	2.6	2.2	2.0	3.7	7.1	6.4	1.4	1.1	1.0	37.0%	18.0%	17.3%
Volvo	Neutral	89	27,652	13%	21%	7.5	6.6	5.8	13.2	10.9	9.0	2.8	2.2	1.7	18.1%	22.1%	21.4%
Weighted Avg (ex JLR)				10%	-5%	3.5	3.4	3.1	7.1	8.0	7.2	1.4	1.2	1.0	24.3%	16.0%	15.7%
Japan																	
Daihatsu Motor	Underperform	1,711	8,488	3%	3%	3.3	3.2	3.1	10.1	10.4	9.6	1.5	1.4	1.3	16.0%	14.1%	13.9%
Honda Motor	Buy	36	66,170	14%	15%	5.5	4.7	4.2	13.3	11.2	10.1	1.3	1.2	1.1	9.7%	11.1%	11.3%
Mazda Motor	Neutral	174	3,598	23%	NM	9.6	7.5	6.3	70.2	24.5	12.0	1.1	1.0	1.0	1.2%	3.4%	6.7%
Nissan Motor	Buy	811	42,584	5%	14%	7.1	7.1	6.4	9.4	8.2	7.3	1.1	0.9	0.9	10.3%	11.1%	11.5%
Suzuki Motor	Buy	2,242	14,610	12%	17%	4.3	3.7	3.4	18.8	15.6	13.7	1.2	1.1	1.0	7.3%	8.3%	8.7%
Toyota Motor	Neutral	4,005	160,395	8%	9%	6.4	6.1	5.5	14.4	13.4	12.1	1.2	1.1	1.0	8.2%	8.4%	8.5%
Weighted Average				9%	11%	6.1	5.7	5.2	14.2	12.3	10.9	1.2	1.1	1.0	8.9%	9.5%	9.7%
Asia (ex India/Japan)																	
Dongfeng Motor	Buy	12	13,315	18%	19%	3.4	3.3	2.5	10.3	10.3	7.3	1.6	1.4	1.2	16.1%	14.2%	17.5%
Geely Autos	Underperform	4	3,574	12%	6%	6.9	6.1	5.5	12.1	11.7	10.7	1.8	1.5	1.4	16.6%	15.6%	14.8%
Great Wall Motor	Underperform	24	9,419	12%	8%	8.2	7.3	6.6	12.2	11.1	10.4	2.9	2.4	2.1	26.0%	23.6%	21.5%
Hyundai Motor	Buy	218,500	44,958	4%	6%	7.1	6.7	6.5	6.5	6.1	5.8	1.0	0.9	0.7	21.0%	19.0%	16.8%
Kia Motors	Buy	56,500	21,393	7%	8%	5.2	4.8	4.5	5.6	5.0	4.7	1.4	1.1	0.9	26.2%	23.4%	20.1%
Weighted Average				8%	8%	6.2	5.8	5.4	7.6	7.2	6.4	1.4	1.2	1.0	21.9%	19.7%	18.1%
US																	
Ford Motor	Buy	13	47,580	2%	14%	3.4	2.9	3.3	9.9	8.6	7.6	4.1	2.8	2.1	30.8%	24.2%	21.1%
General Motor	Buy	28	48,041	13%	23%	6.4	5.5	5.0	8.7	6.8	5.7	1.6	1.5	1.4	18.8%	24.2%	27.4%
Weighted Average				7%	19%	4.9	4.2	4.2	9.3	7.7	6.7	2.9	2.2	1.8	24.8%	24.2%	24.3%

Source: BofA Merrill Lynch Global Research estimates, *Tata Motors excluding JLR

Price objective basis & risk

Tata Motors Ltd. (TENJF / TTM)

Our PO of Rs360 for ordinary shares (ADR US$31.90) is based on the sum-of-the-parts methodology: (1) stand-alone business valued at 7.5x FY14E EV/EBITDA (vs 6.5x earlier) at Rs59 per share, being early cycle recovery multiple, (2) JLR valued at 4x (up from 3.3x) FY14E EV/EBITDA at Rs283 per share, implying 20% growth premium over European auto peers, and (3) subsidiaries valued in line with comparables, with 20% holding company discount.

Risks are global slowdown as well as pricing and currency fluctuations impacting JLR profitability, and delayed cyclical recovery hurting India business.

Tata Motors (XTXMF)

Our PO of Rs360 for ordinary shares (ADR US$31.90) is based on the sum-of-the-parts methodology: (1) stand-alone business valued at 7.5x FY14E EV/EBITDA (vs 6.5x earlier) at Rs59 per share, being early cycle recovery multiple, (2) JLR valued at 4x (up from 3.3x) FY14E EV/EBITDA at Rs283 per share, implying 20% growth premium over European auto peers, and (3) subsidiaries valued in line with comparables, with 20% holding company discount.

Our PO for Class-A shares of Rs 234 is based on a 35% discount to our PO for the ordinary shares, which is equivalent to historical average, which is narrower than the existing 38% discount on the expected increase in free float.

Risks: Economic slowdown, which would adversely affect volume growth, both in domestic operations and JLR. Rising competition and currency volatility also poses significant earnings risk.

Link to Definitions

Industrials

Click here for definitions of commonly used terms.

Analyst Certification

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Special Disclosures

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India - Autos Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Ashok Leyland	XDBVF	AL IN	S.Arun
	Bajaj Auto	XBJBF	BJAUT IN	S.Arun
	M & M	MAHHF	MM IN	S.Arun
	M & M -G	MAHMF	MHID LI	S.Arun
	Maruti Suzuki India	MUDGF	MSIL IN	S.Arun
	Tata Motors	XTXMF	TTMT/A IN	S.Arun
	Tata Motors Ltd.	TTM	TTM US	S.Arun
	Tata Motors Ltd.	TENJF	TTMT IN	S.Arun
UNDERPERFORM				
	Apollo Tyres Ltd	XAPYF	APTY IN	S.Arun
	Eicher Motors	XEICF	EIM IN	S.Arun
	Hero MotoCorp Ltd	HRHDF	HMCL IN	S.Arun
	TVS Motor	XFKMF	TVSL IN	S.Arun

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

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

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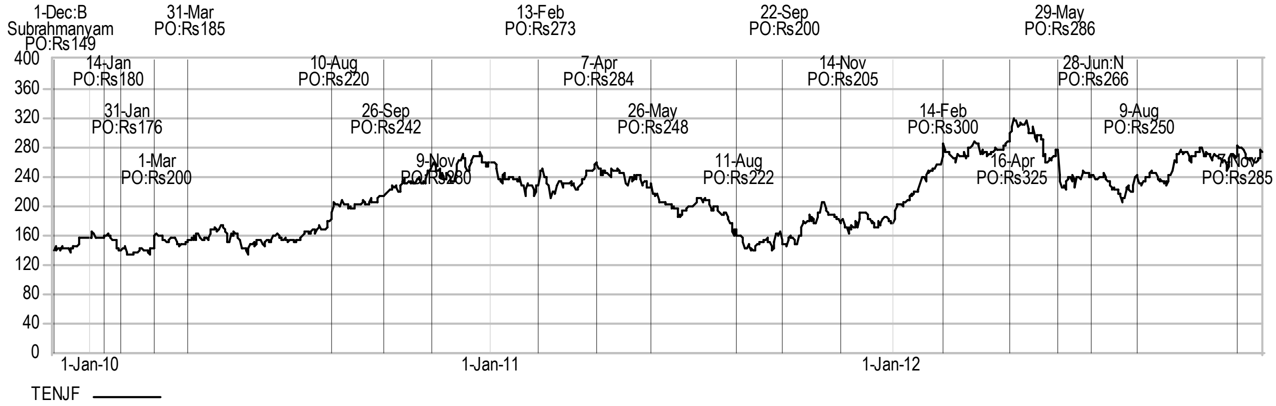
TENJF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

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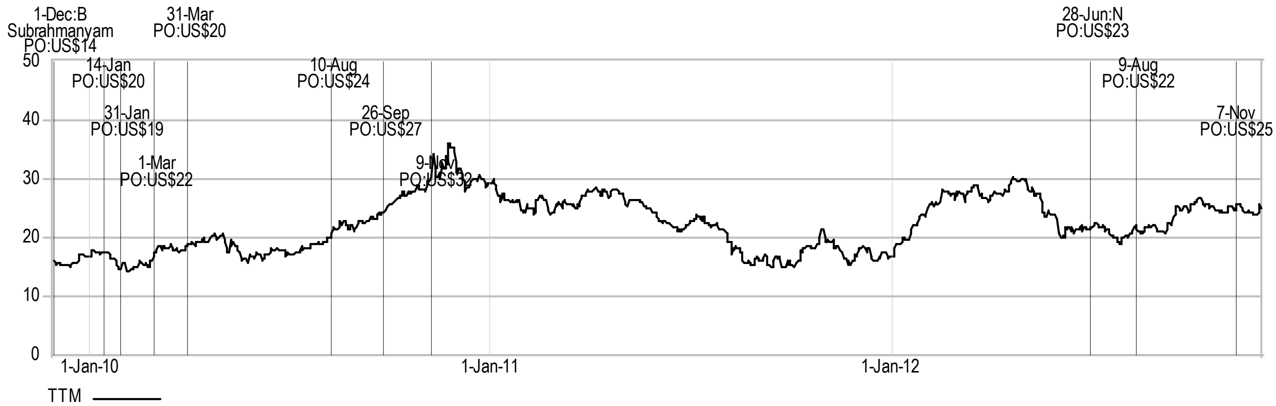
TTM Price Chart



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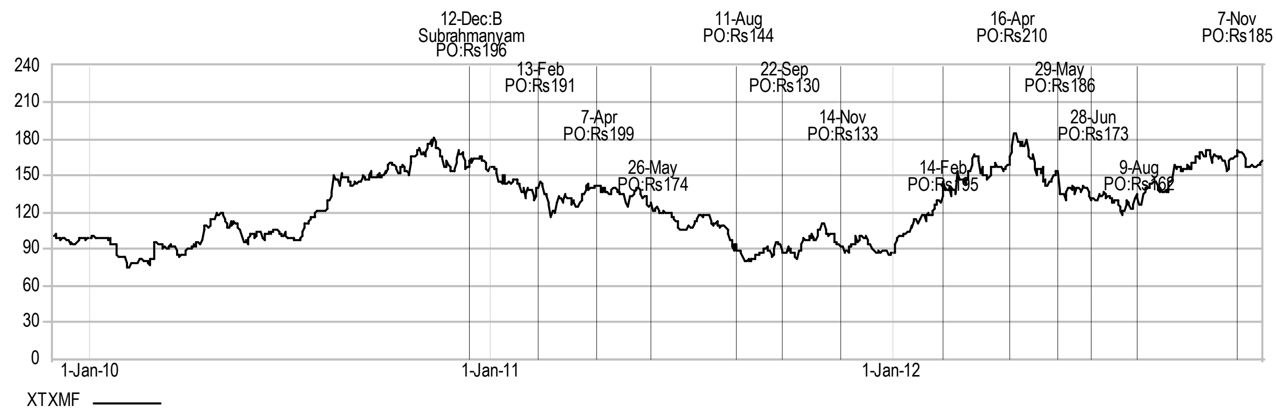
XTXMF Price Chart



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Investment Rating Distribution: Autos Group (as of 01 Oct 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	52	52.00%	Buy	41	83.67%
Neutral	29	29.00%	Neutral	16	76.19%
Sell	19	19.00%	Sell	11	64.71%

Investment Rating Distribution: Global Group (as of 01 Oct 2012)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1908	48.96%	Buy	1289	73.20%
Neutral	1025	26.30%	Neutral	653	70.98%
Sell	964	24.74%	Sell	533	59.35%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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