RESULTS REVIEW

Share Data

Market Cap	Rs. 209.1 bn
Price	Rs. 542.5
BSE Sensex	15,514.79
Reuters	TAMO.BO
Bloomberg	TTMT IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 840/535
Shares Outstanding	385.5 mn

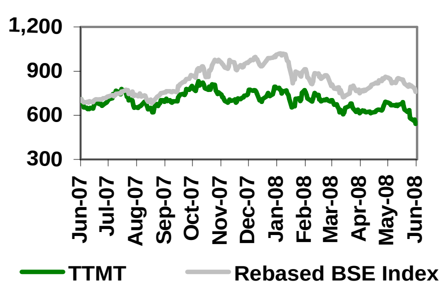
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	48.8	54.9
+/- (%)	(3.9)%	12.6%
PER (x)	11.1x	9.9x
EV/ Sales (x)	0.7x	0.6x
EV/ EBITDA (x)	5.8x	5.0x

Shareholding Pattern (%)

Promoters	33
FIIs	17
Institutions	17
Public & Others	33

Relative Performance



Tata Motors — Buy

'Nano' – the future

Tata Motors Limited (TTMT), the leading automobile manufacturer, faced a challenging year due to poor credit availability, continuous hardening of interest rates, and soaring global crude oil prices. Despite all odds, the Company managed to achieve a marginal growth of 0.6% yoy in the overall volumes. The Commercial Vehicle (CV) segment reported an improvement of 4.8% yoy in volumes, backed by the strong demand for Light Commercial Vehicle (LCV) segment during the year. However, volumes in the Passenger Vehicle (PV) segment were impacted harder and reported a decline of 5.3% yoy. The PV segment was also impacted by the increase in competition and mature product portfolio of the Company. However, the segment is expected to gain strong volume growth in the second half of FY09E with the launch of small car - Nano. We expect that soaring steel and crude oil prices would shift consumer preferences towards low-priced cars and generate strong demand for Nano. We have incorporated the impact of Nano in our estimates for FY09E as well as FY10E.

In the recent past, TTMT's stock took a hit due to the acquisition of the Jaguar and Land Rover (JLR) brands. Though the deal will help the Company to foray into the growing premium and SUV car segments, high interest costs and equity dilution arising out of the deal will affect the Company's profitability.

At the current price, the stock is trading at a P/E of 11.1x and 9.9x for FY09E and FY10E earnings, respectively. We believe that the current price factors in all the negatives, and based on our valuation reiterate our Buy rating on the stock with a revised target price of Rs. 715 for FY09E.

Key Figures (Consolidated)

Yearly Data	FY07	FY08	YoY%
(Figures in Rs. mn, except per share data)			
Net Sales	324,264	356,515	9.9%
Adj. EBITDA	40,308	42,063	4.4%
Adj. Net Profit	21,411	20,698	(3.3)%
Margins(%)			
EBITDA	12.4%	11.8%	
NPM	6.6%	5.8%	
Per Share Data (Rs.)			
Adj. EPS	52.6	50.7	(3.6)%

Result Highlights

Tata Motors managed to report a marginal growth in volumes (0.6% yoy) for FY08 despite poor credit availability, continuous hardening of interest rates, and soaring global crude oil prices. Domestically, the CV segment performed better than the PV segment, led by the strong domestic demand for LCVs. Further, exports increased 2.2% yoy to 54k units during the year.

Yearly Data	2007	2008	YoY%
Domestic			
M&HCV	172,842	165,249	(4.4)%
LCV	125,744	147,686	17.4%
Total CV	**298,586**	**312,935**	**4.8%**
Small	144,690	135,642	(6.3)%
Mid-Size	34,317	31,416	(8.5)%
UV	47,917	47,740	(0.4)%
Total PV	**226,924**	**214,798**	**(5.3)%**
Total Domestic	**525,510**	**527,733**	**0.4%**
Exports	**53,474**	**54,659**	**2.2%**
Total	**578,984**	**582,392**	**0.6%**

* Excludes Fiat sales volume

The volumes in the CV segment increased 4.8% yoy to 313k units driven by the strong demand for the LCVs (Ace Magic, Winger, and mini trucks) during the year. However, the impact of high interest rates and poor financing availability was severe on medium and heavy commercial vehicle (MHCV). Further, disruption in the supply of engines for MHCV during a part of the year also affected the volumes. As a result, the Company's market share in FY08 decreased sharply to 62.7% as against 64% during the previous year.

Nano – to be the new growth driver for the PV segment

The PV segment's volumes declined sharply by 5.3% yoy to 215k units due to rising competition, high interest rates, and mature product portfolio. Further, high fuel prices also discouraged customers from purchasing new cars. While the industry witnessed the launch of 16 new cars and 50 more variants, absence of new launches by Tata has lead to a decline in volumes as well as a sharp fall in the market share (down 240 bps yoy to 14% in comparison to 16.4% yoy during FY07). However, with the reduction of excise duty on small cars in Feb'08, the Company has benefited from excise cuts on Indica and Indigo CS. Further, with the launch of Nano in the second half of FY09E, the segment is expected to gain strong volume growth.

Average realisations improved 10.2% yoy

Consolidated net sales for FY08 went up 9.9% yoy to Rs. 356.5 bn primarily driven by 10.2% yoy improvement in average realisation per unit. In addition, the strong performance by the Company's subsidiaries also contributed to the increase in net sales. Though, the Company has recently undertaken price hikes in the PV and CV segment, we believe that the average realisation is likely to decline with the high proportion of low-priced Nano in the total volumes.

Interest expense jumped 83.1% yoy to Rs. 7.4 bn

Adj. EBITDA for FY08 increased 4.4% yoy to Rs. 42.1 bn whereas EBITDA margin fell 60 bps yoy to 11.8%. The decline in the margin was due to higher raw material cost and staff cost during the year. Despite constant cost reduction initiatives undertaken by the Company, raw material cost rose by 50 bps yoy to 68.4% owing to the soaring steel prices during the year. The steel prices have shot up by more than 25% in barely last three months of the fiscal. Further, despite 74.6% increase in other income to Rs. 2.7 bn, net profit declined 2.5% yoy to Rs. 20.7 bn. The decline in net profit was owing to higher interest and depreciation expense for the year.

JLR Deal

Completion of JLR acquisition

The Company has recently completed the acquisition of British auto brands, Jaguar and Land Rover for a purchase consideration of USD 2.3 bn. The purchase consideration includes three manufacturing plants in U.K, intellectual property rights, two advanced design centres, and worldwide network of National Sales Companies. For the time being the Company has financed the deal by raising a bridge loan of the required amount. However, in the long run, TTML plans to raise about Rs. 92 – 96 bn through the issue of equity and equity linked instruments and the balance through debt. Currently, the Company is planning to raise around Rs. 72 bn through three simultaneous but unlinked rights issue along with raising USD 500/600 mn through issue of securities in the foreign markets. Consequently, this would lead to the dilution of the equity capital by around 30% in FY09E along with higher interest cost for servicing the debt.

Securities	Dilution of equity
1) A rights issue of equity shares upto Rs. 22 bn 2) A rights issue of 'A' equity shares carrying differential voting rights (1 vote for every 10 'A' shares) upto Rs. 20 bn	Both 1) and 2) will lead to the increase in equity capital by 30% in FY09
3) A rights issue of 5 year 0.5% Convertible Preference Shares (CCPs) upto Rs.30 Bn, optionally convertible into 'A' Equity Shares after 3 years but before 5 years from the date of allotment	In the event of conversion between 2012 or 2013, equity capital will increase by 12%

Other key events

- TTMT acquired the Japanese auto giant Nissan's Pretoria manufacturing plant. The Nissan plant was acquired by Tata's Africa Holdings. This would help the Company to get into assembly and manufacturing operations in its important export market.
- Telco Construction Equipment Company Ltd. (TELCON) and a 60:40 JV between TTMT and Japan's Hitachi Construction Machinery Co. Ltd. (HCMC), has entered into an agreement with the shareholders of Comoplesa Lebrero S.A., Spain, for acquisition of 60% stake in the Company. This acquisition would help the Company to enhance its product offerings in the road and general construction value chain.

Key Risks

Key risks to our rating include:

- Delay in the launch of small car 'Nano'
- Unanticipated increase in the prices steel, aluminium, other non-ferrous metals, rubber, and engineering plastics
- Fluctuations in auto loan interest rates

Outlook

Setting up new plants along with expanding its existing production base

TTMT managed to report a marginal growth in volumes for FY08 despite the year being full of challenges. In spite of the continuous hardening of interest rates and poor credit availability, the Company's CV segment reported an increase in volumes led by the strong demand in the LCVs. Going forward, we believe that the global tie-ups with Marcopolo, Iveco, Thonburi and the global truck project in line would provide a thrust to the CV volumes.

Further, the PV segment, which witnessed a decline due to high interest rates and mature product portfolio is also expected to turnaround with the launch of 'Nano', Fiat Linea, and Grande Punto (in JV with Fiat) in FY09E. In addition, with the acquisition of JLR the Company has entered into the growing premium and SUV car segments with an already established range of products. Though the Company would get a leap frog into the premium and SUV car segments, the deal would dilute the equity by around 30% in FY09E along with the burden of bearing high interest servicing cost. Thus, we expect the margins to remain under pressure due to the high interest cost, soaring steel prices, and growing competition.

At the current price, the stock is trading at a P/E of 11.1x and 9.9x for FY09E and FY10E earnings, respectively. We believe that the current price factors in all the negatives, and based on our valuation reiterate our Buy rating on the stock with a revised target price of Rs. 715 for FY09E.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	237,695	324,264	356,515	404,430	480,339	16.1%
Adj. EBITDA	29,765	40,308	42,063	46,931	54,217	13.5%
Adj. Net Profit	17,196	21,411	20,698	19,901	22,417	4.1%
Margins(%)						
EBITDA	12.5%	12.4%	11.8%	11.6%	11.3%	
NPM	7.2%	6.6%	5.8%	4.9%	4.7%	
Per Share Data (Rs.)						
Adj. EPS	42.9	52.6	50.7	48.8	54.9	4.1%
PER (x)	21.7x	10.3x	10.7x	11.1x	9.9x	

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