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INDIA RESEARCH

# Tata Motors

**Rs539**

**OUTPERFORMER**

RESULT NOTE

**Mkt Cap: Rs277bn; US$5.9bn**

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**Result:** Q2FY10 (Standalone)

**Comment:** Sharply ahead of estimates!

Key valuation metrics (Consolidated)

| | Net sales | yoy chg (%) | Net profit | EPS (Rs) | yoy chg (%) | PER (x) | EV/E (x) |
|---|---|---|---|---|---|---|---|
| 2007 | 322,941 | 36.2 | 20,393 | 50.1 | 17.3 | 10.8 | 6.8 |
| 2008 | 355,755 | 10.2 | 19,885 | 35.6 | (28.9) | 15.2 | 6.9 |
| 2009* | 709,389 | 99.4 | (22,677) | (40.6) | NM | n/a | 26.9 |
| 2010E* | 763,164 | 7.6 | (8,349) | (13.5) | NM | n/a | 14.7 |
| 2011E* | 883,273 | 15.7 | 17,605 | 28.5 | NM | 18.9 | 7.9 |

**Include JLR estimates*

## Highlights of Q2FY10 results (Standalone)

- Tata Motors' (TML) Q2FY10 results were ahead of our estimates primarily due to better than expected margins on account of higher per unit realizations led by price hikes during the quarter.
- Net Sales were up 13.5%yoy at Rs79.7bn (we saw Rs77bn) driven primarily by 12%yoy growth in volumes. While its CV volumes were up 14%yoy, passenger vehicle business volumes increased 9%yoy driven by incremental volumes from the Nano as well as the continued success of the Indica Vista.
- TML's raw material costs for the quarter (as a % to sales) declined 120bps qoq on account of better realizations led by price hikes during the quarter as also on account of the excellent inventory management, aggressive cost cutting initiatives and well managed raw material contracts. Product development expenses of future launches capitalized during the quarter stood at Rs1.9bn (Rs2.2bn in Q2FY09). EBIDTA margins improved 200bps qoq (590bps yoy) to 13.4% against our estimate of 11.3%. Absolute EBIDTA for the quarter increased 46%qoq (more than double yoy) to Rs10.7bn (we saw Rs8.7bn).
- Other income for the quarter was higher at Rs4.2bn (we saw Rs2bn) on account of profit on stake sale of Tata Steel (Rs3.9bn) and dividend from subsidiary companies (Rs76.2mn).
- Led by robust margins and higher other income, PAT (adjusted for the forex loss of Rs153mn) for the quarter increased 32%yoy to Rs7.4bn (we saw Rs4.2bn).

## Other key highlights:

- LCV volumes for Q2FY10 increased by 33%yoy led primarily by the robust growth from the ACE platform as well as strong growth witnessed for the 407 and 207DI models.
- TML's order book to supply buses to various STU's on account of the JNNURM scheme currently stands at 5,000 units and is likely to be executed in H2FY10
- TML has affected a price hike of 1.5% wef July09 and a further 1% wef Oct09 across various models.

- Management has indicated that margins may not be sustainable at these levels going forward due to likely upward revision in raw material contracts going forward.
- Tata Motors has incurred capex of Rs13bn in H1FY10 of the total planned capital expenditure of ~Rs25bn for FY10
- Net standalone debt at the end of Q2FY10 has increased to Rs186bn from Rs124bn at the end of FY09.
- Post the recent GDR/FCCN fund raising worth USD750mn, TML has repaid the entire USD3bn bridge loan taken to fund the JLR acquisition.

## OUTLOOK

M&HCV (goods) volume recovery is gaining momentum in the domestic market in line with our expectaions, and Tata Motors, given its leadership position and pan-India presence, stands to be the key beneficiary of the CV cycle upturn. We expect MHCV demand to further accelerate in H2FY10 on the back of a domestic economic recovery as also pre-buying of CVs to comply to the Euro-IV emission norms (implementation by April 2010). The pick-up in overall economic activity would also lead to strong demand for TML's Ace and its variants. The order backlog (5,000units) to supply buses to various STU's would further boost CV offtake in H2FY10. Further, with the launch of the new Indigo Manza and the success of the Indica Vista, the passenger car segment volumes are likely to pick-up going forward. The recent USD750mn fund raising would provide Tata Motors with the much-needed financial flexibility to achieve its long-drawn capex plan (on an average Rs100bn over the next 3-4yrs) for the standalone entity as well as JLR. We await the disclosures of the consolidated performance of TML in Q2FY10 and would release a detailed quarterly update subsequently. TML is currently trading at 18.9xFY11E and 7.9x EV / EBIDTA. Maintain Outperformer with a price target of Rs617.

### Quarterly results standalone

| Year | Q2FY09 | Q3FY09 | Q4FY09 | Q1FY10 | Q2FY10 | FY10E* | Comments |
|---|---|---|---|---|---|---|---|
| **Net sales** | **70,293** | **47,586** | **68,056** | **64,046** | **79,788** | **763,164** | Topline growth led by 12% growth in volumes |
| *yoy chg (%)* | *8.6* | *(34.4)* | *(22.2)* | *(7.6)* | *13.5* | *7.6* | |
| **EBIDTA** | **5,259** | **916** | **4,145** | **7,280** | **10,657** | **44,059** | |
| yoy chg (%) | (11.7) | (88.8) | (47.8) | 37.2 | 102.7 | 100.6 | |
| Other income | 4,788 | 995 | 1,709 | 3,194 | 4,209 | 8,968 | Other income up on profit from sale of investments & dividend income |
| Interest | 1,483 | 1,684 | 2,447 | 2,535 | 2,856 | 27,616 | Interest cost has gone up on account of higher debt burden |
| Depreciation | 2,029 | 2,017 | 2,441 | 2,291 | 2,634 | 32,741 | |
| Profit before tax | 6,430 | (1,926) | 837 | 5,536 | 9,222 | (7,330) | |
| Tax | 823 | (879) | (312) | 343 | 1,823 | - | |
| Net profit before extraordinary expenses | 5,608 | (1,047) | 1,149 | 5,193 | 7,399 | (8,349) | |
| *yoy chg (%)* | *84.1* | *(121.8)* | *(81.8)* | *9.1* | *31.9* | *NM* | |
| Extraordinary items | 2,138 | 1,586 | (4,766) | 55 | (107) | | |
| **Reported Net profit** | **3,470** | **(2,633)** | **5,915** | **5,138** | **7,291** | **(8,349)** | |
| *yoy chg (%)* | *(34.1)* | *(152.7)* | *9.9* | *57.6* | *110.1* | *NM* | |
| OPM (%) | 7.5 | 1.9 | 6.1 | 11.4 | 13.4 | 5.8 | Margins boosted by lower raw material costs |
| NPM (%) | 8.0 | (2.2) | 1.7 | 8.1 | 9.3 | NA | |
| Other income/PBT | 74.5 | (51.7) | 204.2 | 57.7 | 45.6 | NA | |
| Outstanding shares (m) | 386 | 386 | 386 | 617 | 617 | 617 | |
| EPS (Rs) | 14.5 | (2.7) | 3.0 | 8.4 | 12.0 | (13.5) | |
| Cash EPS (Rs) | 20.1 | 2.9 | 9.6 | 12.3 | 16.5 | 44.8 | |
| PER (x) | | | | | | n/a | |

** Consolidated performance*

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