

September 29, 2010

## ACCUMULATE

Price Rs 1,080	Target Price Rs 1,235
Sensex	20,105

### Price Performance

(%)	1M	3M	6M	12M
Absolute	9	37	43	82
Rel. to Sensex	(2)	21	25	51

Source: Bloomberg

### Stock Details

Sector	Automobiles
Reuters	TELC.BO
Bloomberg	TTMT@IN
Equity Capital (Rs mn)	5064
Face Value(Rs)	10
No of shares o/s (mn)	506
52 Week H/L	1,092/520
Market Cap (Rs bn/USD mn)	547/12,096
Daily Avg Volume (No of sh)	4371511
Daily Avg Turnover (US\$m)	90.9

### Shareholding Pattern (%)

	Jun'10	Mar'10	Dec'09
Promoters	37.0	37.0	38.1
FII/NRI	35.3	35.2	34.9
Institutions	18.3	17.9	17.3
Private Corp	0.7	0.6	0.6
Public	8.7	9.3	9.1

Source: Capitaline

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# Tata Motors Limited

## JLR to drive the performance, Maintain ACCUMULATE

- **Strong demand outlook for FY11/FY12, driven by LCVs. JLR continues to suffer with engine shortage. No major pre buying is visible in M&HCVs. Nano's order backlog is almost over**
- **Domestic business to witness cost pressures. JLR margins are sustainable but for currency fluctuations. Price hike due to emission norms is not yet decided**
- **We believe that momentum in M&HCV to peak out, expect concerns for FY12 volumes to set in 3Q/4QFY11. However JLR to more than compensate for downside risk in M&HCVs**
- **Upgrading FY11/FY12 EPS estimates by 10%/13% to Rs 110.6/Rs 137.8 due to upgrade in JLR est. Raise our SOTP based TP to Rs 1235 (up by 8%), maintain ACCUMULATE**

### Key meeting highlights

#### Demand outlook – commercial vehicles

Pre-buying due to implementation of new emission norms is not visible. Domestic demand outlook remains strong. Expect M&HCV truck demand to be around 15% to 18% p.a. in FY11 as well as in FY12. Outlook for bus segment is subdued with ~ 10% growth p.a. for FY11 and FY12. Expect LCV segment to grow at a faster pace of 20% to 22% p.a driven by sub-one ton segment.

#### Demand outlook – passenger vehicles (ex Nano)

Passenger vehicle portfolio (ex Nano) has been witnessing some inventory adjustment and expects growth momentum to gather pace from November onwards. Tata Aria will be launched in October..

#### Demand outlook – JLR

Expect sales of 240,000 units to 250,000 units in FY11. The demand outlook is strong and there is a demand supply mismatch due to shortage of engine supply from Ford. While there is some slowdown visible in Europe, rest of the regions continues to witness strong demand. The arrangement with Ford for engine is on 'take or pay basis'. Hence, would ensure that engine procurement order will not be very aggressive. FY12 can witness another 8% to 10% volume growth driven by China and other developing markets. Expect contribution from Russia to improve from FY12.

### Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	708,881	17,989	2.5	(20,885)	(40.6)	-	(22.5)	(26.6)	47.3	10.6
FY10	925,193	81,160	8.8	14,508	25.4	-	37.8	42.5	10.6	7.3
FY11E	1,149,034	129,302	11.3	63,101	110.6	334.9	56.3	9.8	6.8	4.5
FY12E	1,293,872	149,518	11.6	78,648	137.8	24.6	45.6	7.8	5.6	3.0

Source: Company. Emkay Research

### Inventory in the system

Passenger vehicle portfolio has been witnessing some inventory adjustment as the inventory increased to 42 days as compared to normal inventory of 25 to 30 days. In M&HCVs some inventory build up has happened due to emission norms as the vehicles of older emission norms can also be sold post 1st October once they have an excise clearance.

### Nano - production status

Current run rate of Nano at Sanand is ~ 9000 units p.m., target to reach to full capacity of 20,000 units p.m by end of FY11. The shifting of production of Nano from Pantnagar to Sanand has commenced. Tata Ace to be produced at full capacity of ~ 20000 units to 22,000 units p.m. as compared to current run rate of 15,000 units to 17,000 units p.m. Plans commence to sales of Nano for walk - in customers in next two months, as the previous backlog will be exhausted (has already opened the sales in Kerela during the festive season of Onam). However, sales of Nano will be location specific and not pan India due to logistic and infrastructure issues.

### Cost pressures and Margins

Expect cost pressure in the domestic business due to general inflationary pressure, rising metal prices and also emission norms impact. Expect cost of new emission norms to be passed on in a staggered manner. On JLR front, margins are sustainable but for currency swings. The hedging policy is based on net exposure. Also, only a part of net exposure is hedged. There are adequate levers in JLR for cost reduction over the next two to three years that will provide cushion to margins. Some of the areas of focus will be – outsourcing to low cost countries like Eastern Europe, China, India for raw material (low value add/labour intensive materials), outsourcing of low end of product development spend, outsourcing of IT management, etc. 2013 and beyond, the cost reduction will come from commonality of platforms. Currently JLR has 9 platforms.

### Fund raising

Fund raising is imperative as the management intends to bring down the debt equity level. The fund raising will be based on the required capital and desired dilution of equity and promoter holding. The amount could be around USD 800mn.

### Valuations and View

At CMP of Rs 1,080, the stock trades at a PER of 7.8 and EV/EBIDTA of 5.6 our FY12 estimates. We have valued the stock on SOTP basis as indicated next page. We have marginally lowered our volumes estimates for M&HCVs and increased the estimates for JLR. We believe that momentum in M&HCV will peak out, expect concerns for FY12 volumes to set in from 3Q/4QFY11. However, JLR will more than compensate for downside risk in M&HCVs. We have revised our target price to Rs 1235 (up by 8.3%). We maintain ACCUMULATE rating on the stock.

### Revision in estimates

Rs mn	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Volumes	1,026,138	1,035,703	0.9	1,205,946	1,219,642	1.1
Sales	1,106,736	1,138,320	2.9	1,247,415	1,292,625	3.6
EBIDTA	121,189	128,302	5.9	139,891	150,518	7.6
EBIDTA margins (%)	11.0	11.3		11.2	11.6	
Net Profits	56,338	62,109	10.2	68,830	77,585	12.5
EPS	100.5	110.6	10.2	122.5	137.8	12.5

Source: Emkay Research

**Valuation Summary**

	<b>FY11E</b>	<b>FY12E</b>
<b>Volumes</b>		
M&HCVs	210,817	232,774
LCVs	227,244	243,790
Cars	196,568	211,173
Nano	120,000	225,000
UVs	45,804	48,523
JLR	235,270	258,382
<b>Total</b>	<b>1,035,703</b>	<b>1,219,642</b>
<b>Sales (Rs. Mn.)</b>		
TML	449,424	509,035
JLR	623,357	711,977
Others (ex TMFSL)	65,539	71,614
<b>Total</b>	<b>1,138,320</b>	<b>1,292,625</b>
<b>EBIDTA (Rs. Mn.)</b>		
TML	46,448	53,941
JLR	71,099	84,797
Others (ex TMFSL)	10,755	11,781
<b>Total</b>	<b>128,302</b>	<b>150,518</b>
<b>Target multiple</b>		
TML	8.0	8.0
JLR	4.0	4.0
Others (ex TMFSL)	7.2	7.2
<b>Target EV (Rs. Mn.)</b>		
TML	371,581	431,527
JLR	284,396	339,187
Others	77,437	84,820
<b>Total</b>	<b>733,414</b>	<b>855,534</b>
<b>Less: Net Debt (ex TMFSL) (Rs. Mn.)</b>		
Target MC	552,076	703,309
Share capital nos mn)	571	571
<b>Value per share (Rs.)</b>		
Less MI	30	30
Add:TMFSL	27	32
<b>Net Value per share (Rs.)</b>	<b>965</b>	<b>1,235</b>

Source: Emkay Research

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>708,881</b>	<b>925,193</b>	<b>1,149,034</b>	<b>1,293,872</b>
Growth (%)	100.0	30.5	24.2	12.6
<b>Expenditure</b>	<b>690,892</b>	<b>844,033</b>	<b>1,019,732</b>	<b>1,144,353</b>
Materials Consumed	405,097	541,055	757,599	850,331
Employee Cost	72,974	87,518	86,442	93,465
Other Exp	212,821	215,460	175,691	200,557
<b>EBITDA</b>	<b>17,989</b>	<b>81,160</b>	<b>129,302</b>	<b>149,518</b>
Growth (%)	(55.1)	351.2	59.3	15.6
<b>EBITDA margin (%)</b>	<b>2.5</b>	<b>8.8</b>	<b>11.3</b>	<b>11.6</b>
Depreciation	25,068	38,871	34,839	39,165
<b>EBIT</b>	<b>(7,079)</b>	<b>42,288</b>	<b>94,463</b>	<b>110,354</b>
<b>EBIT margin (%)</b>	<b>(1.0)</b>	<b>4.6</b>	<b>8.2</b>	<b>8.5</b>
Other Income	6,161	5,995	10,630	9,490
Interest expenses	24,629	27,976	28,140	26,215
<b>PBT</b>	<b>(25,547)</b>	<b>20,307</b>	<b>76,953</b>	<b>93,628</b>
<b>Tax</b>	<b>(4,662)</b>	<b>5,799</b>	<b>13,851</b>	<b>14,981</b>
Effective tax rate (%)	18.2	28.6	18.0	16.0
<b>Adjusted PAT</b>	<b>(20,885)</b>	<b>14,508</b>	<b>63,101</b>	<b>78,648</b>
Growth (%)	(213.5)	(169.5)	334.9	24.6
<b>Net Margin (%)</b>	<b>(2.9)</b>	<b>1.6</b>	<b>5.5</b>	<b>6.1</b>
(Profit)/loss from JV's/Ass/MI	(632)	542	(992)	(1,063)
Adj. PAT After JVs/Ass/MI	<b>(21,517)</b>	<b>15,050</b>	<b>62,109</b>	<b>77,585</b>
E/O items	(5,844)	(10,654)	-	-
<b>Reported PAT</b>	<b>(15,673)</b>	<b>25,704</b>	<b>62,109</b>	<b>77,585</b>
Growth (%)			141.6	24.9

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	(31,708)	14,312	66,323	84,138
Depreciation	25,068	38,871	34,839	39,165
Interest Provided	24,629	27,976	28,140	26,215
Other Non-Cash items	(57,956)	(25,881)	-	-
Chg in working cap	53,452	43,790	(19,523)	15,917
Tax paid	(5,986)	(5,799)	(13,851)	(14,981)
<b>Operating Cashflow</b>	<b>7,498</b>	<b>93,269</b>	<b>95,927</b>	<b>150,454</b>
Capital expenditure	(98,959)	(84,532)	(84,062)	(94,201)
<b>Free Cash Flow</b>	<b>(91,460)</b>	<b>8,737</b>	<b>11,865</b>	<b>56,253</b>
Other income	6,161	5,995	10,630	9,490
Investments	(95,366)	<b>3,207</b>	(650)	(650)
<b>Investing Cashflow</b>	<b>(188,164)</b>	<b>(75,331)</b>	<b>(74,082)</b>	<b>(85,361)</b>
Equity Capital Raised	42,106	16,675	-	-
Loans Taken / (Repaid)	233,890	2,185	(24,328)	(23,937)
Interest Paid	(24,629)	(27,976)	(28,140)	(26,215)
Dividend paid (incl tax)	(3,724)	(6,749)	(10,386)	(11,478)
Income from investments	-	-	-	-
Others	(70,011)	40,985	-	-
<b>Financing Cashflow</b>	<b>177,631</b>	<b>25,119</b>	<b>(62,854)</b>	<b>(61,631)</b>
<b>Net chg in cash</b>	<b>(3,035)</b>	<b>43,058</b>	<b>(41,009)</b>	<b>3,463</b>
Opening cash position	38,332	41,213	87,433	46,424
<b>Closing cash position</b>	<b>35,297</b>	<b>84,272</b>	<b>46,424</b>	<b>49,887</b>

\* The difference is due to inclusion of cash equivalent and forex adjustments

Source: Company. Emkay Research

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	5,141	5,706	5,706	5,706
Reserves & surplus	47,900	78,270	130,985	198,155
<b>Net worth</b>	<b>53,041</b>	<b>83,976</b>	<b>136,691</b>	<b>203,861</b>
<b>Minority Interest</b>	<b>4,030</b>	<b>2,135</b>	<b>3,128</b>	<b>4,191</b>
Secured Loans	137,055	212,900	212,900	212,900
Unsecured Loans	212,684	139,023	113,703	88,703
<b>Loan Funds</b>	<b>349,739</b>	<b>351,924</b>	<b>326,603</b>	<b>301,603</b>
Net deferred tax liability	6,802	11,536	11,536	11,536
<b>Total Liabilities</b>	<b>413,612</b>	<b>449,571</b>	<b>477,958</b>	<b>521,191</b>
Gross Block	621,880	682,747	763,179	853,750
Less: Depreciation	332,691	344,135	378,974	418,139
<b>Net block</b>	<b>289,190</b>	<b>338,612</b>	<b>384,205</b>	<b>435,612</b>
Capital work in progress	105,330	80,680	84,310	87,940
<b>Investment</b>	<b>12,574</b>	<b>22,191</b>	<b>22,841</b>	<b>23,491</b>
<b>Current Assets</b>	<b>317,276</b>	<b>425,296</b>	<b>466,446</b>	<b>512,634</b>
Inventories	101,547	113,120	153,658	172,437
Sundry debtors	48,001	71,912	88,145	99,256
Cash & bank balance	41,213	87,433	46,424	49,887
Loans & advances	126,514	152,831	178,219	191,055
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>311,618</b>	<b>417,208</b>	<b>479,845</b>	<b>538,486</b>
Current liabilities	241,026	340,773	387,498	434,854
Provisions	70,592	76,435	92,346	103,632
<b>Net current assets</b>	<b>5,658</b>	<b>8,088</b>	<b>(13,398)</b>	<b>(25,852)</b>
Misc. exp	860	-	-	-
<b>Total Assets</b>	<b>413,612</b>	<b>449,571</b>	<b>477,958</b>	<b>521,191</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	2.5	8.8	11.3	11.6
Net Margin	(2.9)	1.6	5.5	6.1
ROCE	(0.3)	11.2	22.7	24.0
ROE	(22.5)	37.8	56.3	45.6
RoIC	(4.1)	16.5	32.4	32.3
<b>Per Share Data (Rs)</b>				
EPS	(40.6)	25.4	110.6	137.8
CEPS	8.1	93.5	171.6	206.5
BVPS	101.5	147.2	239.6	357.3
DPS	22.0	40.0	68.0	77.5
<b>Valuations (x)</b>				
PER	(26.6)	42.5	9.8	7.8
P/CEPS	132.7	11.5	6.3	5.2
P/BV	10.6	7.3	4.5	3.0
EV / Sales	1.1	0.9	0.8	0.6
EV / EBITDA	47.3	10.6	6.8	5.6
Dividend Yield (%)	2.0	3.7	6.3	7.2
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	5.6	3.0	1.9	1.1
Net Debt/EBIDTA	17.7	3.5	2.3	1.8
Working Cap Cycle (days)	(47.1)	(61.4)	(46.3)	(46.0)

**Recommendation History: Tata Motors Ltd – TTMT IN**

Date	Reports	Reco	CMP	Target
11.08.2010	<a href="#">Tata Motors Q1FY11 Result Update</a>	Accumulate	957	1,140
28.05.2010	<a href="#">Tata Motors 4QFY10 Conso Result Update</a>	Hold	743	810
02.03.2010	<a href="#">Tata Motors 3QFY10 Conso result update</a>	Sell	771	606
01.02.2010	<a href="#">Tata Motors 3QFY10 Result Update</a>	Sell	694	580

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27.09.2010	<a href="#">Bajaj Auto Management Meet Update</a>	Accumulate	1,446	1,630
15.09.2010	<a href="#">Ashok Leyland Analyst Meet Update</a>	Hold	77	76
07.09.2010	<a href="#">Maruti Suzuki Management Meet Update</a>	Accumulate	1,303	1,450
02.09.2010	<a href="#">Eicher Motors Management Meet Note</a>	Not Rated	1,259	NR

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