

Equity | India | Autos/Car Manufacturers
24 March 2009

Nano launch, Big future

Nano is exciting, but the rest is not

Tata Motors' showcased the low cost car *Nano* today. Key takeaways post-launch (1) Pricing band of Rs 1.23K-1.72K (ex-showroom Delhi) is compelling, and we expect to attract new car buyers, (2) Bank to finance bookings with margin starting Rs 2,999, which will likely generate speculative interest, and (3) Production constraints (just ~50K in first year) and high booking amounts (Rs 95K-140K) should lead to substantial cancellations, post-first phase allotment of 100K units. The stock has had a strong rally past month, mainly driven by positive sentiment of this launch. We retain Underperform due to concerns beyond *Nano* prospects.

We believe *Nano* will expand the car market

We believe *Nano*'s distinct price band is an attractive proposition for brand new car buyers, and therefore should not be a direct threat to both, two wheelers and alternative car models. However, we think used car sales will be negatively impacted, thereby marginalising unorganised players, but not branded franchises e.g. Maruti's True value.

Cash flows rather than profits, could be the focus

Post overrun, *Nano* project cost has increased by ~25% to Rs 20bn. Based on current cost structure, we estimate profit break-even on annualised sales of 225K units i.e. in FY11. However, we expect Tata Motors to benefit from (1) one-time application fees of Rs 300 per form, expected from 500-1000K initial bookings i.e Rs 1.5-3bn, and (2) funds float, which could be substantial even accounting for cancellations post-allotment, and at a reasonable rate of interest @8.5%.

Issues beyond Nano our key concern

We believe that post-*Nano* excitement, markets will again focus on key concerns, which are (1) domestic slowdown, seen impacting demand of core operating segments, especially commercial vehicles, and (2) JLR related issues, both on refinancing, as well as business prospects.

Estimates (Mar)

(Rs)	2007A	2008A	2009E	2010E	2011E
Net Income (Adjusted - mn)	21,964	20,290	2,470	4,968	13,711
EPS	56.99	52.63	5.27	9.68	26.71
EPS Change (YoY)	35.2%	-7.7%	-90.0%	83.7%	176.0%
Dividend / Share	15.00	15.00	5.00	5.00	10.00
Free Cash Flow / Share	(95.69)	23.83	(29.56)	22.64	50.98
ADR EPS (US\$)	1.26	1.31	0.104	0.192	0.529
ADR Dividend / Share (US\$)	0.332	0.372	0.099	0.099	0.198

Valuation (Mar)

P/E	2.92x	3.16x	31.54x	17.17x	6.22x
Dividend Yield	9.03%	9.03%	3.01%	3.01%	6.02%
EV / EBITDA*	7.23x	7.02x	10.27x	9.72x	7.70x
Free Cash Flow Yield*	-43.24%	10.77%	-17.79%	13.63%	30.68%



RESEARCH

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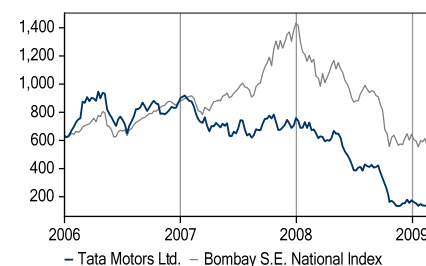
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Stock Data

Price (Common / ADR)	Rs166.15 / US\$5.10
Price Objective	Rs114.00 / US\$3.40
Date Established	1-Feb-2009 / 1-Feb-2009
Investment Opinion	C-3-7 / C-3-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs122.00-Rs742.79
Market Value (mn)	US\$1,690
Shares Outstanding (mn)	513.4 / 513.4
Average Daily Volume	4,183,780
ML Symbol / Exchange	TENJF / BSE
ML Symbol / Exchange	TTM / NYS
Bloomberg / Reuters	TTMT IN / TAMO.BO
ROE (2009E)	2.3%
Net Dbt to Eqty (Mar-2008A)	84.6%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	68.0%



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Refer to important disclosures on page 5 to 8. Analyst Certification on Page 3. Price Objective Basis/Risk on page 3.

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iQprofileSM Tata Motors

Key Income Statement Data (Mar)	2007A	2008A	2009E	2010E	2011E
(Rs Millions)					
Sales	324,264	356,515	751,109	729,656	873,028
Gross Profit	41,514	42,732	29,215	30,884	38,966
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	33,778	34,243	3,831	5,691	11,179
Net Interest & Other Income	(2,526)	(4,767)	(1,838)	441	5,079
Associates	0	0	0	0	0
Pretax Income	31,252	29,475	1,992	6,133	16,257
Tax (expense) / Benefit	(8,832)	(8,515)	211	(1,382)	(2,632)
Net Income (Adjusted)	21,964	20,290	2,470	4,968	13,711
Average Fully Diluted Shares Outstanding	385	386	469	513	513

Key Cash Flow Statement Data

Net Income	22,070	20,290	2,470	4,968	13,711
Depreciation & Amortization	7,736	8,490	25,384	25,193	27,788
Change in Working Capital	(39,415)	40,032	(9,234)	5,135	2,948
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(350)	1,438	0	0	0
Cash Flow from Operations	(9,959)	70,249	18,621	35,295	44,446
Capital Expenditure	(26,921)	(61,063)	(33,797)	(23,670)	(18,274)
(Acquisition) / Disposal of Investments	869	(14,912)	(124,504)	0	0
Other Cash Inflow / (Outflow)	NA	NA	NA	NA	NA
Cash Flow from Investing	(26,052)	(75,975)	(158,301)	(23,670)	(18,274)
Shares Issue / (Repurchase)	25	1	1,279	0	0
Cost of Dividends Paid	(6,785)	(6,787)	(3,013)	(3,013)	(6,025)
Cash Flow from Financing	33,689	32,515	160,118	7,566	(5,256)
Free Cash Flow	(36,880)	9,186	(15,176)	11,626	26,172
Net Debt	61,476	77,517	214,742	211,346	199,817
Change in Net Debt	41,549	16,041	98,693	(8,696)	(20,698)

Key Balance Sheet Data

Property, Plant & Equipment	75,142	128,634	248,602	249,947	244,247
Other Non-Current Assets	16,176	32,320	156,824	156,824	156,824
Trade Receivables	17,022	20,605	17,209	17,564	20,929
Cash & Equivalents	11,543	38,332	53,837	67,028	77,725
Other Current Assets	129,679	133,806	159,194	164,992	181,958
Total Assets	249,562	353,697	635,667	656,355	681,683
Long-Term Debt	73,019	115,849	268,578	278,374	277,542
Other Non-Current Liabilities	8,173	9,745	8,758	9,034	9,921
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	88,654	136,446	221,205	228,642	247,471
Total Liabilities	169,846	262,039	498,541	516,050	534,934
Total Equity	79,716	91,658	137,126	140,305	146,749
Total Equity & Liabilities	249,562	353,697	635,667	656,355	681,683

iQmethodSM - Bus Performance*

Return On Capital Employed	18.5%	13.1%	1.3%	1.7%	2.9%
Return On Equity	31.7%	24.7%	2.3%	3.7%	9.9%
Operating Margin	10.4%	9.6%	0.5%	0.8%	1.3%
EBITDA Margin	12.8%	12.0%	3.9%	4.2%	4.5%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	-0.5x	3.5x	7.5x	7.1x	3.2x
Asset Replacement Ratio	3.9x	7.8x	1.4x	1.0x	0.7x
Tax Rate (Reported)	28.3%	28.9%	NM	22.5%	16.2%
Net Debt-to-Equity Ratio	77.1%	84.6%	156.6%	150.6%	136.2%
Interest Cover	8.3x	4.6x	0.2x	0.4x	0.7x

Key Metrics

* For full definitions of iQmethodSM measures, see page 4.

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 and Lucknow. Key export markets include Europe, Australia, South East Asia, the Middle East and Africa.

Investment Thesis

We expect Tata Motors to underperform as its core business will likely be dragged down by finance constraints and higher interest rates, resulting in slowdown in passenger vehicles and delayed recovery in the commercial vehicle segment. We expect margins to decline on deteriorating product mix to relatively low-margin passenger cars, and higher input costs. Since JLR's financials lack clarity, we believe the market will assign it a lower value.

Stock Data

Shares / ADR	1.00
Price to Book Value	0.6x

Price objective basis & risk

Tata Motors Ltd. (TENJF / TTM)

Our PO of Rs114 (US\$3.4 for ADR) is based on P/BV, adjusted for intangible assets. We are using this methodology instead of traditional valuation parameters, in the absence of any clarity on JLR's financial and operational details. We value the company at 1x P/BV, which is the average of historical troughs. Upside risks: Moderation of commodity prices and falling fuel prices. Downside Risks: Economic slowdown which would adversely affect volume growth.

Analyst Certification

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India - Autos Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
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NEUTRAL				
	Bajaj Auto	XBJBF	BJAUT IN	S.Arun
	Bajaj Hldgs & Inv-G	BJAUF	BAUD LI	S.Arun
	Bajaj Holdings and Investment	BJJAF	BJHI IN	S.Arun
	Eicher Motors	XEICF	EIM IN	S.Arun
	Jet Airways	JTAIF	JETIN IN	S.Arun
UNDERPERFORM				
	Ashok Leyland	XDBVF	AL IN	S.Arun
	Bharat Forge	XUUVF	BHFC IN	S.Arun
	Container Corp	CIDFF	CCRI IN	S.Arun
	Gateway Distriparks	GYDPF	GDPL IN	S.Arun
	M & M	MAHMF	MM IN	S.Arun
	M & M -G	MAHMF	MHID LI	S.Arun
	Maruti Suzuki India	MUDGF	MSIL IN	S.Arun
	Tata Motors Ltd.	TENJF	TTMT IN	S.Arun
	Tata Motors Ltd.	TTM	TTM US	S.Arun
	TVS Motor	XFKMF	TVSL IN	S.Arun

iQmethodSM 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 + Sales Other LT Liabilities	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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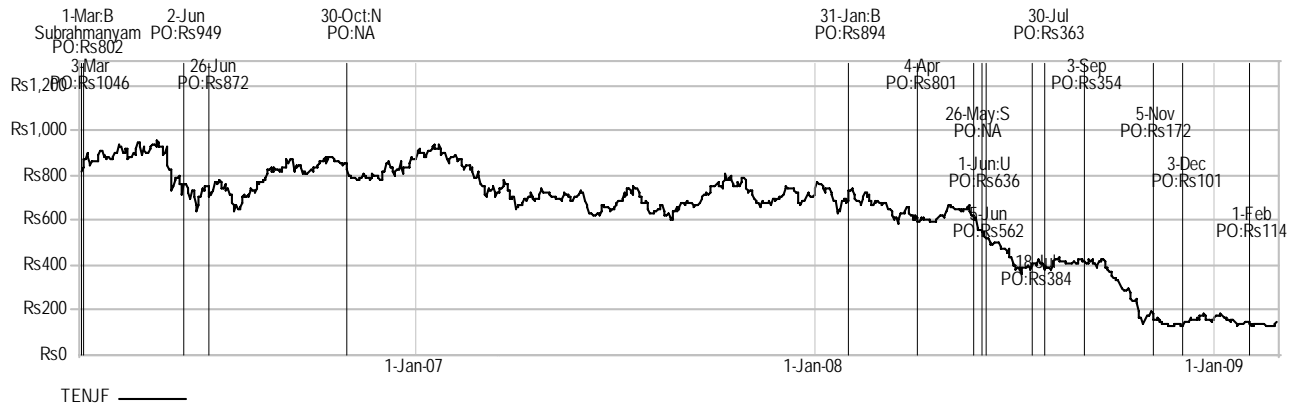
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TENJF Price Chart

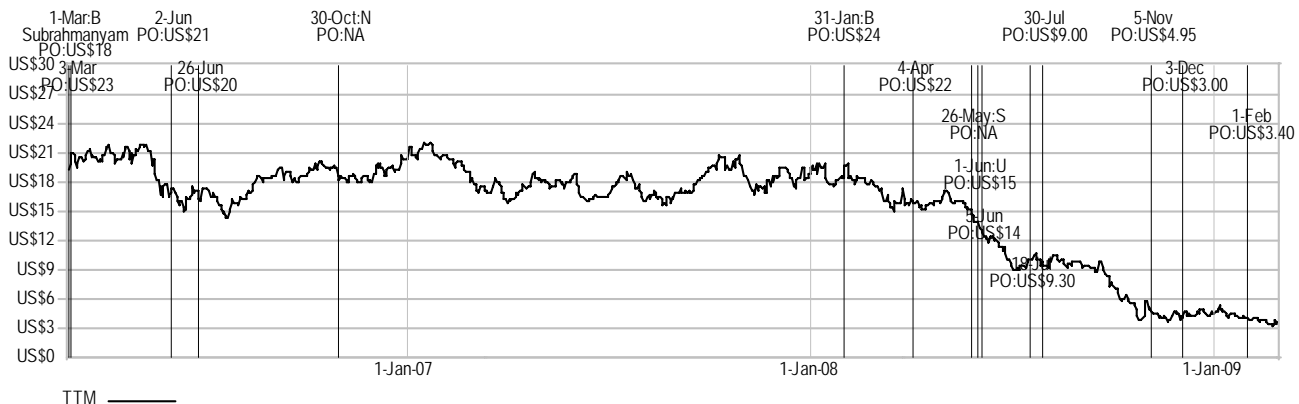


B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of February 28, 2009 or such later date as indicated.

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TTM Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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Investment Rating Distribution: Autos Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	30	33.71%	Buy	3	10.34%
Neutral	17	19.10%	Neutral	6	46.15%
Sell	42	47.19%	Sell	10	29.41%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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