

21st May 2007

Buy

Price

Rs743
Sensex
14,303

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(15)	(8)	(15)
Rel. to Sensex	(2)	(14)	(14)	(32)

Source: Bloomberg

Stock Details

Sector	Automobiles
Reuters	TELC.BO
Bloomberg	TTMT@IN
Equity Capital (Rs mn)	3854
Face Value (Rs)	10
52 Week H/L (Rs)	975/651
Market Cap (Rs bn)	286.2
Daily Avg Vol (No of shares)	1909274
Daily Avg Turnover (US\$ mn)	34.8

Shareholding Pattern (%)

(31 st Mar'07)	
Promoters	33.4
FII/NRI	38.7
Institutions	16.3
Private Corp	1.2
Public	10.4

Material costs dents profits

Tata Motors' (TAMO) Q4FY07 results were below our expectations. Net Sales adjusted for forex gains were up 19.5% yoy on the back of 16% surge in volumes- led by its successful LCV Ace. EBITDA margin was down 151bps yoy to 11% due to raw material cost pressures, which along with other income of Rs604mn drove 21.8% growth in adjusted net profits to Rs 5.33bn (Rs4.38bn). Robust subsidiary contribution helped the company post full year consolidated EPS of Rs 53.9. Though the immediate outlook for the CV's and cars remains bleak, Tamo is expected to benefit in the longer term from the favourable domestic economy, increasing international presence (rising exports & benefits from JV's and tie-ups) and aggressive launches from new platforms scheduled in the next 12 months. We believe TAMO is on a strong footing to assert itself as a globally competitive auto major. We fine-tune our FY08 estimates considering a slower volume growth and lower standalone margins at 11.6%, and maintain TAMO as our top pick in the sector. **BUY.**

Result Highlights

- Net sales for the quarter grew 19.5% yoy to Rs82.07bn (Rs68.7bn) after adjusting the forex gain to the tune of Rs602mn. The full year consolidated sales grew 36.4% yoy to Rs 324.3bn helped by over 15% contribution from subsidiaries.
- Robust 16% growth in volumes during Q4 and a 28% yoy gain for the full year was accompanied by all-round domestic market share gain of 90 bps in MHCVs to 62.9% and 530bps yoy in LCVs to 65.4%. MHCV good's volumes rose 36.8% yoy in FY07, LCV volumes increased 45.9% yoy and PV volumes rose 26.3% yoy (market share almost flat at 16.4%).
- EBITDA margin dipped 150bps yoy to 11.04% due to rise in input costs (raw material-to-sales ratio up 139bps yoy to 71.3%) coupled with increase in other expenses (other expenses-to sales ratio up 27bps yoy to 13.2%) – EBITDA grew mere 5.1% yoy.
- A healthy other income of Rs604mn helped by dividend income and a yoy lower interest expenses helped the adjusted net profits grow 21.8% yoy to Rs5.33bn (Rs 4.38bn). Reported profits for the fiscal stood at Rs19.1bn on a 12% EBITDA margin, translating into an EPS of Rs 47.5. Consolidated profits stood at Rs 21.7bn earning an EPS of Rs 53.9.

Valuations

At CMP of Rs743, the stock trades at a PE of 11.9x and 10.5x its estimated consolidated FY08 and 09 earnings of Rs 62.5 and Rs 70.5 respectively.

Key Financials: Rs bn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E
FY06	237.7	30.5	12.8	17.1	42.43	11.5	5.2	1.7	28.3	17.5
FY07	324.3	41.2	12.7	22.0	54.75	9.2	3.4	2.0	26.1	13.6
FY08E	364.1	42.8	11.8	25.2	62.51	8.6	2.9	2.0	22.1	11.9
FY09E	412.3	48.2	11.7	28.4	70.52	7.1	2.5	2.2	21.5	10.5

Consolidated

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Sales summary

	Volumes		% Ch	Mkt Share %	
	FY07	FY06		FY07	FY06
Commercial Vehicles	298586	214836	39.0	63.9	61.2
Passenger Vehicles	228220	189070	20.7	16.4	16.5
Total Domestic Sales	526806	403906	30.4		
Exports	53474	50223	6.5		
Total Volumes	580280	454129	27.8		

CV growth in FY07 benefited from: i) huge success of Ace- rolled out 1 lakh units since launch and had a run rate of ~6500 units a months ii) Supreme Court ban on overloading of vehicles (estimated at 60-65%) and iii) strong industrial and agricultural growth. PV sales rose due to successful launch of Indica 1.2 Xeta (petrol car) at attractive price points and good contribution by UV sales at over 21%.

Satisfactory subsidiary performance –

Tata Daewoo (TDCV): Turnover in FY07 jumped 47% yoy to Rs 23.3bn, while PAT grew 42% from Rs 583mn to Rs 829mn. Sales volumes also rose impressively by 46% yoy, to 8630units, of which exports contributed 3016 units. However, in the Korean CV industry TDCV's domestic market share stood at 26.1% (17.6%).

Telcon: Helped by a 46 yoy volume growth in excavators, wheel and backhoe loaders in FY07, TELCON's revenue posted a 40% yoy growth, to Rs 18.3bn, while PAT zoomed from Rs870mn to Rs 1.84bn. Telcon continued to be the leader in excavators, with a 53% market share, while market-share in wheel-loaders and backhoe loaders stood at 10%. It also launched new large Zaxis hydraulic excavators and Hitachi Sumitomo cranes during the year.

Tata Technologies (TTL): Turnover grew 76% yoy to Rs 9.6bn, while PAT grew by 42%yoy to Rs 165mn. Though the integration with Incat went way beyond schedule, the benefits of business restructuring have begun to accrue. We expect the operations to streamline in coming quarters, as the offshoring in designing services still appear to be budding in the country.

Other subsidiaries: The auto component business grew exceptionally well during the year. HV Axles posted a 36.7% and 25% yoy growth in net sales and net profits respectively. HV Transmissions posted a 38% and 49% yoy rise turnover and PAT respectively. TML Financial services, which began operations in Sept-06 has an average book size of Rs 85.5bn and an NIM of 5.5-6.5%. We view TMLs role to be very crucial in the current scenario of tightened liquidity by other financiers and rising interest rates. There is enough room for margin contraction due to sub venting loans to boost volumes.

Huge capex plans

The company proposes a capex of Rs120bn for the next 3-4 years, of which Rs40bn is allocated to the capital expenditure and sustenance. The company has earmarked Rs80bn for new products development. We view the huge capex as long term positive, the company is almost doubling its capacities and is investing in the future. The next generation car platform and the World truck platform shall give the company a leading edge over its competitors in domestic and global markets.

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Growing international presence

The total exports during the fiscal grew ~6% yoy, the CV exports grew 18% yoy to 35653 units whereas the passenger vehicle exports declined 11% yoy to Rs 17821 units. Revenues from international business formed around 18% of the consolidated revenues of the company during FY07 against 17% in FY06. South Africa and South Asia are the key export destinations, which along with Turkey and parts of Europe together contribute around 70% of the vehicle exports.

Going ahead we expect positives from the Thonburi, Thailand JV and from Fiat licensing agreement for South America. Rising international focus shall help the company reduce its dependence on the domestic industry.

Key Financials: (Standalone) Rs mn

Particulars	Q4FY07	Q4FY06	% chg	FY07	FY08E	FY09E
Net Sales	82068.0	68696.5	19.5	273872.3	310195.9	349658.2
Other Income	604.4	44.2	1267.4	2455.0	2535.9	2885.1
Total Income	82672.4	68740.7	20.3	276327.3	312731.8	352543.3
Raw Material Consumed	55618.1	43923.6	26.6	190629.4	211113.6	238584.9
Stock Adjustment	2936.1	4137.3	-29.0	-3496.8	0.0	0.0
Employee Expenses	3646.6	3151.0	15.7	13678.3	15515.3	17186.2
Other Expenses	10806.8	8860.1	22.0	40866.3	47696.8	53474.8
Total Expenditure	73007.6	60072.0	21.5	241677.2	274325.7	309245.9
EBITDA	9060.4	8624.5	5.1	32195.1	35870.2	40412.3
Product Dev	285.2	529.1	-46.1	850.2	0.0	0.0
PBIDT	9379.6	8139.6	15.2	33799.9	38406.1	43297.4
Interest	597.7	691.7	-13.6	3130.7	3490.0	3860.0
PBDT	8781.9	7447.9	17.9	30669.2	34916.1	39437.4
Depreciation	1585.9	1265.6	25.3	5866.3	6840.7	7600.0
PBT	7196.0	6182.3	16.4	24802.9	28075.4	31837.4
Tax	1862.2	1803.9	3.2	5908.2	6738.1	7672.8
Adjusted profit	5333.8	4378.4	21.8	18894.7	21337.3	24164.6
Extra-ordinary Items	433.4	202.7	113.8	239.9	0.0	0.0
Reported profit	5767.2	4581.1	25.9	19134.6	21337.3	24164.6
EPS RS	13.2	10.9		46.9	53.0	60.0
Conso EPS Rs	16.1	13.0		53.9	62.5	70.5
EBITDA %	11.0	12.6		11.8	11.6	11.6

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