

FEBRUARY 17, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **712**

Target price (Rs): **810**

BSE-30: **16,429**

Strong quarter expected from Jaguar Land Rover. We expect JLR's EBITDA for the December quarter to come in close to £110 mn. An upside to our estimates is possible as we have modeled only an 18% contribution margin on 28% qoq volume growth. At £110mn of EBITDA, JLR could report positive PAT. The turnaround in JLR is on track and could accelerate with the Jaguar XJ launch. Domestically, CV volume trends are expected to remain robust on strong industrial production and emission rule changes.

Company data and valuation summary

Tata Motors

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	845-128	EPS (Rs)	26.2	30.1	34.9
Market Cap. (Rs bn)	406.5	EPS growth (%)	161.0	15.0	16.0
Shareholding pattern (%)		P/E (X)	27.2	23.7	20.4
Promoters	40.6	Sales (Rs bn)	329.8	401.7	453.4
FIs	24.4	Net profits (Rs bn)	14.9	17.6	20.4
MFs	1.9	EBITDA (Rs bn)	39.8	45.7	51.1
Price performance (%)		EV/EBITDA (X)	15.1	13.2	11.8
Absolute	1M 3M 12M	ROE (%)	14.4	11.6	11.7
	(10.8) 13.6 444.0	Div. Yield (%)	0.8	0.8	0.8
Rel. to BSE-30	(4.1) 16.6 199.1				

JLR expected to post close to £110mn in EBITDA for 3QFY10E on the back of strong volumes

Based on monthly disbursements, Jaguar Land Rover is expected to report qoq volume growth of 28% to 57,000 units in 3QFY10E. The strong sequential growth should afford JLR significant operating leverage benefits and drive EBITDA to £110mn from £41mn in 2QFY10 (Exhibit 1). We could be conservative here as we have modeled only an 18% contribution margin on incremental revenues. In 2QFY10, JLR experienced contribution margins of 25%. If we assume a 25% contribution margin in 3QFY10 as well, EBITDA could be as high as £135 mn.

Inventory levels under control, pricing could offer further upside

Exhibit 3 shows dealer inventory levels for Jaguar Land Rover in the US. As can be seen these have declined significantly over the last two months and are now similar to peer group. The low inventory levels could have helped the company offer lesser amount of incentives/discounts, which would result in higher revenue per unit in the quarter. We have modeled a slight decline in revenue per unit qoq to reflect the adverse mix from lower XJ sales as the company winds down the older model. However, this could be conservative.

Fundamentals remain strong with JLR turnaround on track and robust domestic CV volumes

We view the on-track JLR turnaround story and strong domestic CV volume trends as key positives for the stock. We view the current high valuation levels that the stock is trading at as the key risk as it could set the stock up for disappointment. Having said that, we see more upside than downside in earnings given the stabilizing volume environment at JLR's key markets (Exhibit 2), new product cadence and continued cost reduction efforts at JLR. On the domestic front, strong industrial production trends and upcoming changes in emission regulations should help maintain the strong growth in M&HCV volumes. We are maintaining our earnings estimates and target at Rs810.

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Exhibit 1: 28% volume upside expected to drive Jaguar Land Rover margins higher

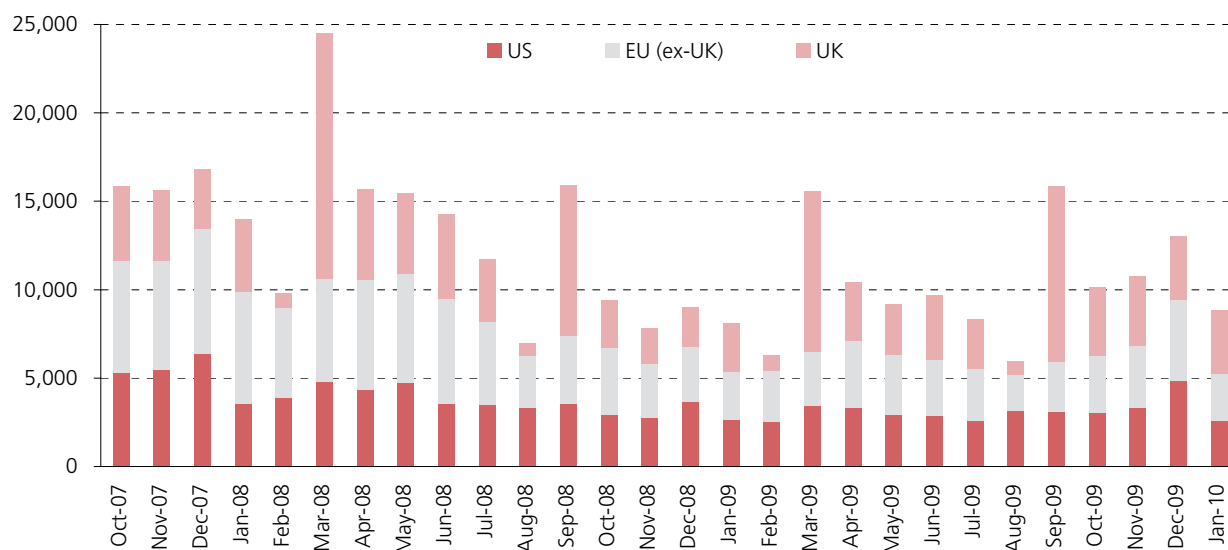
Quarterly income and cash flow statement of JLR, March fiscal year-ends, 2009-12E (GBP in mn)

Income statement	Annual				Quarterly			as % of sales		
	FY2009	FY2010E	FY2011E	FY2012E	1QFY10	2QFY10	3QFY10E	1QFY10	2QFY10	3QFY10E
Volumes (000s)	167	195	239	263	36	44	57			
Sales	4,974	6,245	7,918	8,710	1,125	1,420	1,802			
RPU	29,784	31,964	33,083	33,083	31,337	32,054	31,734			
Cost of sales	5,018	5,940	7,085	7,745	1,160	1,379	1,691			
Materials	3,296	4,342	5,319	5,850	814	987	1,261	72.4	69.5	70.0
Labor	569	730	776	795	176	187	187	15.6	13.2	10.4
Mnfrng costs and SG&A	1,153	869	991	1,099	170	205	243	15.1	14.4	13.5
D&A	170	250	288	331	69	58	60	6.1	4.1	3.3
R&D	39	45	50	50	11	9	10	1.0	0.6	0.6
EBIT	(253)	10	496	585	(115)	(26)	41	(10.2)	(1.8)	2.3
EBITDA	(44)	305	834	965	(35)	41	111	(3.1)	2.9	6.1
Contribution margin (%)		27.4	31.6	16.6					25.6	18.3

Source: Company, Kotak Institutional Equities

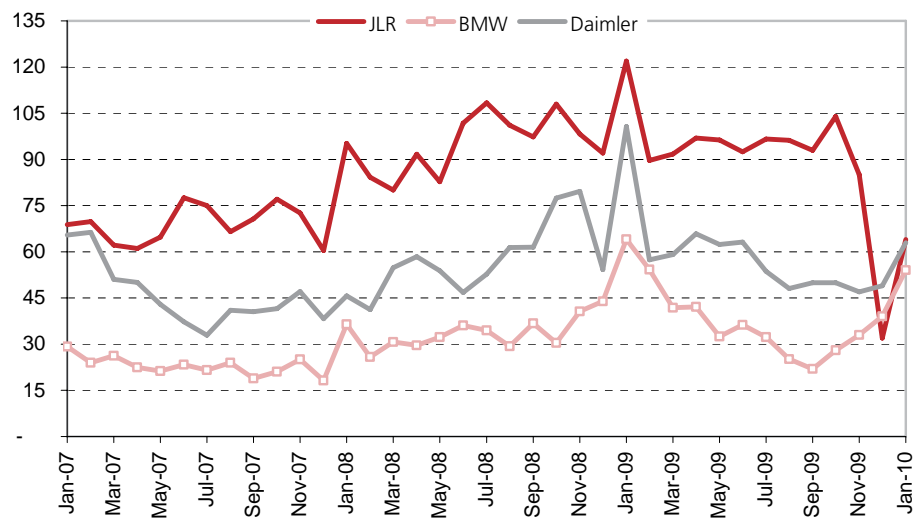
Exhibit 2: JLR's sales volumes stabilizing at trough levels in US & Europe, UK showing some strength

JLR monthly volumes in key markets, Oct'07 to date (# vehicles)



Source: Autodata, ACEA, SMMT, Kotak Institutional Equities estimates

Exhibit 3: Inventory days remain high in the US
JLR inventory days compared to BMW and Mercedes



Source: Wards Auto, Kotak Institutional Equities estimates

Tata Motors, SOTP-based valuation, FY2011E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comments
Tata Motors standalone EV	45,341	8.0	362,727	619	Based on 8X FY2011E EBITDA
JLR stadalone EV	42,553	8.0	340,428	581	Based on 8X FY2011E EBITDA adjusted for capitalized R&D
Less: Net debt - standalone			192,292	328	standalone debt
Less: Net debt - JLR			90,000	154	JLR operating debt
Total standalone + JLR			420,863	718	
Value of subsidiaries				93	
SOTP-based value				811	
Target price				810	

Source: Kotak Institutional Equities estimates

Tata Motors standalone, Volume details, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
M&HCVs	136,871	184,997	179,400	123,011	161,863	185,723	213,119
M&HCVs-domestic	128,610	172,842	166,037	113,674	153,460	176,479	202,951
M&HCVs-exports	8,261	12,155	13,363	9,337	8,403	9,244	10,168
LCVs	108,151	149,241	173,434	168,495	226,861	259,089	284,052
LCVs-domestic	86,226	125,744	147,334	151,338	208,846	240,173	264,191
LCVs-exports	21,925	23,497	26,100	17,157	18,015	18,916	19,861
UVs	39,791	49,306	50,299	39,981	31,131	32,687	34,322
UVs-domestic	37,910	47,892	47,700	39,303	30,656	32,189	33,799
UVs-exports	1,881	1,414	2,599	678	475	498	523
Passenger vehicles	169,280	196,736	179,268	166,660	184,994	407,494	472,948
Passenger vehicles-domestic	151,160	180,328	167,058	160,422	144,380	151,599	166,759
Passenger vehicles-exports	18,120	16,408	12,210	6,238	5,614	5,895	6,190
Small car	-	-	-	-	35,000	250,000	300,000
Total domestic sales	403,906	526,806	528,129	464,737	572,342	850,440	967,699
Total export sales	50,187	53,474	54,272	33,410	32,507	34,552	36,742
Total vehicle sales	454,093	580,280	582,401	498,147	604,849	884,993	1,004,441
Total vehicle sales (ex-Nano)	454,093	580,280	582,401	498,147	569,849	634,993	704,441
Volume growth (yoy %)							
M&HCVs	1	35	(3)	(31)	32	15	15
M&HCVs-domestic	(0)	34	(4)	(30)	35	15	15
M&HCVs-exports	39	47	10	(30)	(10)	10	10
LCVs	46	38	16	(3)	35	14	10
LCVs-domestic	42	46	17	5	38	15	10
LCVs-exports	63	7	11	(30)	5	5	5
UVs	7	24	2	(21)	(22)	5	5
UVs-domestic	11	26	(0)	(18)	(22)	5	5
UVs-exports	(32)	(25)	84	(74)	(30)	5	5
Passenger vehicles	11	16	(9)	(7)	11	120	16
Passenger vehicles-domestic	4	19	(7)	(4)	(10)	5	10
Passenger vehicles-exports	132	(9)	(26)	(49)	(10)	5	5

Source: Company, Kotak Institutional Equities estimates

Tata Motors, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-12E (Rs mn)

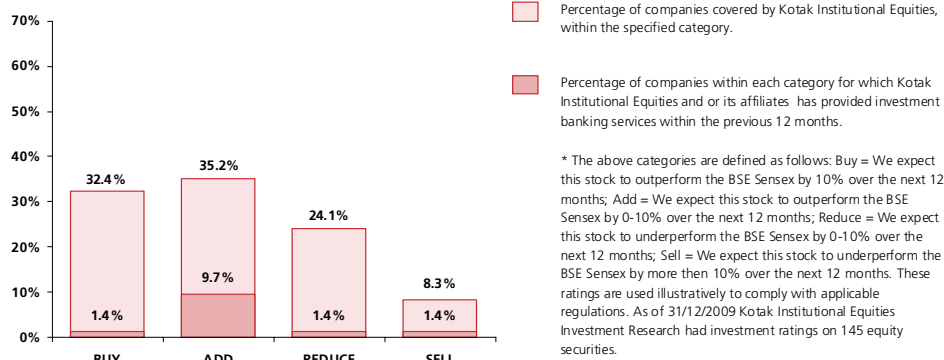
	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	272,618	285,219	253,541	327,403	402,475	455,089
EBITDA	30,191	28,191	13,293	39,450	45,341	50,763
Other income	4,295	5,365	7,144	2,284	2,551	2,798
Interest	(3,131)	(2,824)	(6,737)	(11,138)	(13,018)	(13,260)
Depreciation	(5,863)	(6,523)	(8,745)	(10,391)	(12,621)	(14,546)
Profit before tax	25,492	24,209	4,956	20,205	22,253	25,755
Current tax	(4,825)	(1,460)	(150)	(1,761)	(1,670)	(1,898)
Deferred tax	(1,772)	(4,015)	25	(3,657)	(3,469)	(3,942)
Net profit	19,135	20,289	10,013	21,672	20,557	23,358
Adjusted earnings per share (Rs)	46.4	46.0	10.0	25.9	29.2	34.0
Balance sheet (Rs mn)						
Equity	68,698	78,395	123,943	159,159	175,898	195,438
Deferred tax liability	7,868	9,757	8,658	12,315	15,784	19,726
Total borrowings	40,091	62,805	131,656	199,018	204,018	204,018
Current liabilities	77,280	106,566	108,355	120,398	135,272	144,796
Total liabilities	193,937	257,524	372,612	490,891	530,972	563,977
Net fixed assets	63,946	104,523	145,993	163,103	177,981	190,935
Investments	24,770	49,103	129,681	211,846	211,846	211,846
Cash	8,268	23,973	11,418	6,726	6,544	9,091
Other current assets	96,853	79,865	85,499	109,196	134,580	152,085
Miscellaneous expenditure	101	61	20	21	21	20
Total assets	193,937	257,524	372,612	490,891	530,972	563,977
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	26,621	24,631	13,901	44,575	47,114	52,308
Working capital changes	(4,520)	37,114	(950)	(11,654)	(10,511)	(7,981)
Capital expenditure	(23,660)	(43,719)	(40,113)	(27,500)	(27,500)	(27,500)
Free cash flow	(1,559)	18,026	(27,162)	5,420	9,103	16,827
Ratios						
Debt/equity (X)	0.5	0.7	1.0	1.2	1.1	0.9
Net debt/equity (X)	0.3	0.1	0.0	0.9	0.8	0.7
RoAE (%)	27.7	24.7	9.1	14.3	11.3	11.5
RoACE (%)	20.7	16.8	8.0	9.4	8.0	8.2

Source: Company, Kotak Institutional Equities estimates

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2009

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