

Tata Motors Ltd

Beats the street...yet again; maintain BUY

Tata Motors (TTMT) reported a strong set of numbers for Q3FY11, with consolidated revenues/profits at Rs 316.8bn/Rs 24.5bn that were 5%/7% above our estimates for the quarter. Operating performance for the domestic as well as the JLR businesses was better-than-anticipated in the current quarter. We revise our estimates for JLR for the third consecutive quarter, this time not only on the margins front but also on volumes, owing to the new product launches and faster pace of recovery in the West. Our FY12/FY13 EPS estimates thus stand upgraded by 4.7%/8.3% to Rs 160/Rs 172; however, the upward revision in JLR numbers is marginally offset by a slight downward revision in our margin outlook for the domestic business. TTMT, at a consolidated level, is currently trading at 7.2x FY12E earnings and 4.5x EV/EBITDA. Our SOTP-based Dec '12 target price for the stock now stands revised to Rs 1,500 (as against Rs 1,450 earlier).

Stellar performance in Q3: TTMT's consolidated revenues/profits for Q3FY11 stood at Rs 316.8bn/Rs 24.5bn, beating our and street estimates (by 5%/7%) as well as the consensus. The key driver of this strong performance was an EBITDA margin of 17.4% clocked by JLR—an 80bps improvement QoQ as against the expectation of a decline of a similar magnitude. JLR's net profits were 12% ahead of our estimates. Standalone business margins, at 10.4%, too surpassed our estimates, an improvement of 70bps QoQ.

JLR to lead the way: We upgrade our estimates for JLR for the third consecutive quarter, given the phenomenal turnaround in its business. We have been conservative enough to model a ~200bps margin decline in FY12, over the one reported in the most recent quarter. Our estimates for JLR derive comfort from the following: (a) Our FY12 volume estimates are still below peak volumes clocked in CY07 and new launches that JLR has lined up. (b) Adjusted for R&D capitalisation, the EBIT margins are in line with other luxury car makers and hence sustainable. The standalone business, in our view, could see some near-term margin pressure owing to higher input costs. This leads us to accordingly reduce our estimates marginally.

Maintain BUY, 30% upside potential: Post our earnings revision, our FY12/FY13 consolidated EPS stands upgraded by 4.7%/8.3% to Rs 160/Rs 172. On consolidated earnings, TTMT is trading at 7.2x FY12E earnings and 4.5x EV/EBITDA. Our SOTP-based one-year target price stands at Rs 1,500, valuing the JLR business at 5.5x EV/EBITDA and standalone business at 7.5x EV/EBITDA (vs. 8.5x earlier, to factor in the increasing concerns on domestic business), and adjusting for R&D capitalisation. At our target price, the upside potential from current levels is 30%. Maintain BUY.

Financial highlights - Tata Motors (Standalone)

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	355,931	453,973	523,159	584,603
Growth (%)	39.6	27.5	15.2	11.7
Adj net income	13,588	17,939	23,638	26,702
Growth (%)	691.9	32.0	31.8	13.0
FDEPS (Rs)	23.2	27.8	35.6	40.2
Growth (%)	655.6	19.7	27.8	13.0

Financial highlights - Tata Motors (Consolidated)

(%)	FY10	FY11E	FY12E	FY13E
Revenue	925,608	1,241,720	1,438,200	1,647,286
Growth (%)	30.5	34.2	15.8	14.5
Adj. Net Income	10,791	91,062	106,010	114,026
Growth (%)	(134.6)	743.9	16.4	7.6
Religare EPS (Rs)	18.5	141.3	159.5	171.6
Growth (%)	(133.0)	665.4	12.9	7.6

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 1,143	Rs 1,500	BUY	HIGH

BSE	NSE	BLOOMBERG
500570	TATAMOTORS	TTMT IN

Company data

Market cap (Rs mn / US\$ mn)	681,103/14,904
Outstanding equity shares (mn)	611
Free float (%)	65
Dividend yield (%)	0.9
52-week high/low (Rs)	1,382/661
2-month average daily volume	3,673,038

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Tata Motors	1,143	(1.3)	(10.4)	13.5
BSE Auto	8,491	(8.9)	(17.9)	(1.7)
Sensex	17,729	(7.6)	(13.9)	(1.9)

Valuation matrix (Consolidated)

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	61.9	8.1	7.2	6.7
P/E @ Target	81.2	10.6	9.4	8.7
EV/EBITDA @ CMP	10.1	5.0	4.5	4.1





Result highlights

Fig 1 - Actual vs estimated performance (Consolidated business)

(Rs mn)	Actual	Estimate	% Variance	Consensus	% Variance
Revenue	316,852	301,413	5.1	302,168	4.9
EBITDA	44,886	40,480	10.9	41,471	8.2
EBITDA Margin (%)	14.2	13.4	80 bps	13.7	50 bps
Adj net income	24,531	22,798	7.6	21,629	13.4
FDEPS (Rs)	36.9	34.3	7.6	-	-

Source: RCML Research

Fig 2 - Consolidated quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Net sales	316,852	260,443	21.7	287,820	10.1
Expenditure	271,966	230,725	17.9	247,804	9.8
Adj. Operating profit	44,886	29,718	51.0	40,016	12.2
EBITDA margin (%)	14.2	11.4	(280 bps)	13.9	30 bps
Other income	2,248	1,217	84.7	2,094	7.3
Interest	7,182	6,628	8.4	7,221	(0.5)
Depreciation	12,388	13,072	(5.2)	10,949	13.1
PBT	27,237	8,893	206.3	25,227	8.0
Tax	3,189	2,429	31.3	3,131	1.8
Adj. PAT	24,531	8,845	177.3	20,923	17.2
EPS (Rs)	36.9	14.2	160.7	31.5	17.2

Source: Company, RCML Research

Fig 3 - Standalone quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Sales volume (units)	194,085	165,413	17.3	207,645	(6.5)
Realizations/Vehicle (Rs)	593,531	542,878	9.3	554,026	7.1
Net sales	115,196	89,799	28.3	115,041	0.1
Expenditure	103,236	78,280	31.9	103,865	(0.6)
Adj. Operating profit	11,960	11,519	3.8	11,176	7.0
EBITDA margin (%)	10.4	12.8	(240 bps)	9.7	70 bps
Other income	54	2	-	775	(93.0)
Interest	2,749	2,861	(3.9)	3,072	(10.5)
Depreciation	3,648	2,867	27.2	3,546	2.9
PBT	5,312	5,550	(4.3)	5,372	(1.1)
Tax	1,211	1,549	(21.8)	1,045	15.9
Adj. PAT	4,314	4,244	1.7	4,289	0.6
EPS (Rs)	6.5	6.8	(4.5)	6.5	0.6

Source: Company, RCML Research

Results beat estimates owing to better-than-anticipated realisations and healthy operating performance from both, the standalone and JLR businesses

The strong consolidated performance was driven by an EBITDA margin of 17.4% clocked by JLR—an 80bps improvement QoQ as against the expectation of a decline

Domestic business saw strong growth in realisations which, coupled with lower raw material costs, led to margin expansion QoQ

Lower other income resulted in a below-estimated bottomline



Fig 4 - JLR : Quarterly performance

(£ mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Volumes (units)	63,155	56,778	11.2	55,134	14.5
Realisations (£)	42,119	34,538	21.9	40,759	3.3
Net sales	2,660	1,961	35.6	2,247	18.4
EBITDA	463	192	141.1	373	24.3
EBITDA Margin (%)	17.4	9.8	760 bps	16.6	80 bps
Adj net income	275	53	418.9	229	20.2

Strong margin performance on account of increased realisations, better product and geographic mix

Fig 5 - Performance of key subsidiaries: YoY comparison

(Rs mn)	Revenue			EBITDA Margins			PAT		
	Q3FY11	Q3FY10	% chg	Q3FY11	Q3FY10	chg (bps)	Q3FY11	Q3FY10	% chg
Tata Daewoo	6,582	5,860	12.3	3.6	3.5	10	(44)	(19)	-
Tata technologies	3,133	2,790	12.3	12.5	12.7	(20)	283	218	29.5
Tata Mot. Finance	3,318	3,446	(3.7)	10.8	10.6	20	328	390	(16.0)
HV Transmission	734	543	35.1	57.2	56.1	110	215	144	49.3
HV Axle	726	607	19.7	54.2	58.0	(380)	200	162	23.4

Source: Company, RCML Research

Revised estimates

Fig 6 - TTMT (consolidated)

Key parameters (Rs mn)	FY11E			FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue	1,198,574	1,241,720	3.6	1,388,051	1,438,200	3.6	1,555,459	1,647,286	5.9
EBITDA margin (%)	13.5	14.1	60 bps	13.0	13.5	45 bps	12.7	13.1	40 bps
Net profit	87,855	91,062	3.7	101,215	106,010	4.7	105,281	114,026	8.3
FDEPS (Rs)	136.3	141.3	3.7	152.3	159.5	4.7	158.4	171.6	8.3

Source: Company, RCML Research

Valuation

Fig 7 - Tata Motors SOTP-based valuation

Valuation Matrix	Valuation Basis	Value/Share
Tata Motors Standalone	EBITDA - 7.5x – Sep 12E	611
Jaguar Land Rover	EBITDA – 5.5x – Sep 12E	1,163
Less Adj. for R&D in JLR*	50% of Annual R&D expense	232
Less: Automotive Debt	Outstanding Debt/Share	161
Tata Motors StdL.+ JLR		1,381
Add: Other Holdings & Subs	Based on FY12E earnings/Book value	108
Total Value per share (rounded-off)		1,500

* Annual R&D expenditure assumed at Gbp 800mn

The standalone business is valued at Rs 473, JLR at Rs 909 and other subsidiaries at Rs 108



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	925,608	1,241,720	1,438,200	1,647,286
Growth (%)	30.5	34.2	15.8	14.5
EBITDA	86,557	174,746	193,781	215,928
Growth (%)	293.9	101.9	10.9	11.4
Depreciation & amortisation	43,853	54,015	59,862	67,954
EBIT	42,704	120,731	133,920	147,974
Growth (%)	(748.9)	182.7	10.9	10.5
Interest	24,653	23,333	18,725	17,537
Other income	2,256	3,394	3,713	4,064
EBT	20,307	100,792	118,908	134,502
Income taxes	10,058	10,411	13,754	21,484
Effective tax rate (%)	49.5	10.3	11.6	16.0
Extraordinary items	14,919	-	-	-
Min into / inc from associates	542	681	856	1,008
Reported net income	25,711	91,062	106,010	114,026
Adjustments	14,919	-	-	-
Adjusted net income	10,791	91,062	106,010	114,026
Growth (%)	(134.6)	743.9	16.4	7.6
Shares outstanding (mn)	570.6	611.1	611.1	611.1
FDEPS (Rs) (adj)	18.5	141.3	159.5	171.6
Growth (%)	(133.0)	665.4	12.9	7.6
DPS (Rs)	15.1	10.1	10.1	10.1

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	64,537	145,076	165,872	181,980
Non-cash adjustments	(36,160)	6,149	2,687	7,122
Changes in working capital	26,009	(29,768)	(17,040)	(12,050)
Cash flow from operations	54,386	121,458	151,519	177,052
Capital expenditure	(84,532)	(90,820)	(98,500)	(105,500)
Change in investments	(116)	(1,525)	(1,672)	(1,833)
Other investing cash flow	4,850	-	-	-
Cash flow from investing	(79,799)	(92,345)	(100,172)	(107,333)
Issue of equity	16,852	33,507	-	-
Issue/repay debt	56,082	(52,508)	(49,211)	(44,211)
Dividends paid	(3,496)	(10,037)	(7,098)	(7,098)
Other financing cash flow	(963)	-	-	-
Change in cash & cash eq	43,063	75	(4,962)	18,409
Closing cash & cash eq	87,434	87,508	82,546	100,955

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	87,433	87,508	82,546	100,955
Accounts receivable	71,912	81,647	90,626	99,288
Inventories	113,120	129,138	141,196	151,365
Other current assets	152,831	173,865	184,114	197,698
Investments	22,191	23,716	25,388	27,221
Gross fixed assets	648,518	740,018	838,518	944,018
Net fixed assets	304,383	341,869	380,507	418,053
CWIP	80,680	80,000	80,000	80,000
Intangible assets	34,229	34,229	34,229	34,229
Deferred tax assets, net	(11,536)	(10,536)	(9,536)	(8,536)
Other assets	(1,912)	(1,912)	(1,912)	(1,912)
Total assets	853,332	939,525	1,007,158	1,098,362
Accounts payable	221,875	226,006	232,711	245,211
Other current liabilities	118,898	130,788	137,327	144,193
Provisions	76,435	81,326	85,670	94,400
Debt funds	351,924	299,416	250,205	205,994
Other liabilities	2,135	2,454	2,798	3,190
Equity capital	5,706	6,108	6,108	6,108
Reserves & surplus	76,359	193,427	292,339	399,266
Shareholder's funds	82,065	199,535	298,447	405,374
Total liabilities	853,332	939,525	1,007,158	1,098,362
BVPS (Rs)	153.8	336.5	498.3	673.3

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	9.4	14.1	13.5	13.1
EBIT margin	4.6	9.7	9.3	9.0
Net profit margin	1.2	7.3	7.4	6.9
ROE	15.3	64.7	42.6	32.4
ROCE	6.8	24.5	23.8	22.7
Working Capital & Liquidity ratios				
Receivables (days)	24	23	22	21
Inventory (days)	64	54	52	48
Payables (days)	123	101	88	79
Current ratio (x)	1.2	1.3	1.3	1.4
Quick ratio (x)	0.4	0.5	0.5	0.5
Turnover & Leverage ratios (x)				
Gross asset turnover	1.5	1.8	1.8	1.8
Total asset turnover	1.2	1.4	1.5	1.6
Interest coverage ratio	1.7	5.2	7.2	8.4
Adjusted debt/equity	2.5	1.1	0.6	0.4
Valuation ratios (x)				
EV/Sales	1.0	0.8	0.7	0.6
EV/EBITDA	11.1	5.5	5.0	4.5
P/E	61.9	8.1	7.2	6.7
P/BV	7.4	3.4	2.3	1.7



Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	260,443	289,778	270,556	287,820	316,852
YoY growth (%)	47.1	84.6	65.0	36.4	21.7
QoQ growth (%)	23.4	11.3	(6.6)	6.4	10.1
EBITDA (Rs mn)	29,718	31,354	38,554	40,016	44,886
EBITDA margin (%)	11.4	10.8	14.2	13.9	14.2
Adj net income (Rs mn)	8,845	6,173	20,158	20,923	24,531
YoY growth (%)	(134)	(126)	(404)	771	177.3
QoQ growth (%)	268	(30)	227	4	17.2

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	101.2	53.1	90.3	89.2	84.8
Interest burden (PBT/EBIT)	468.6	47.6	83.5	88.8	90.9
EBIT margin (EBIT/Revenues)	(0.9)	4.6	9.7	9.3	9.0
Asset turnover (Revenues/Avg TA)	132.8	117.3	138.5	147.8	156.5
Leverage (Avg TA/Avg equity)	729.9	1,115.5	636.7	390.9	299.2
Return on equity	(42.6)	15.3	64.7	42.6	32.4

Company profile

TTMT is India's largest commercial vehicle manufacturer with a market share of 61% in the M&HCV segment and 59% in the LCV segment. It is the third largest passenger car manufacturer with a market share of 13.2%. The launch of the mass market *Nano* is expected to increase its market share in the passenger car segment further. In FY09, it acquired *Jaguar* and *Land Rover* brands from Ford Motor Co, which now contribute more than 50% of revenues.

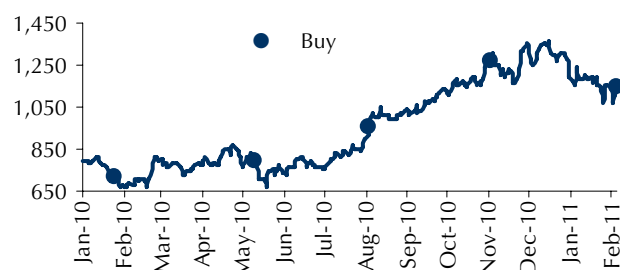
Shareholding pattern

(%)	June-10	Sep-10	Dec-10
Promoters	37.0	37.0	34.9
FII's	22.4	23.6	24.2
Banks & FI's	18.6	17.8	13.9
Public	22.0	21.6	26.9

Recommendation history

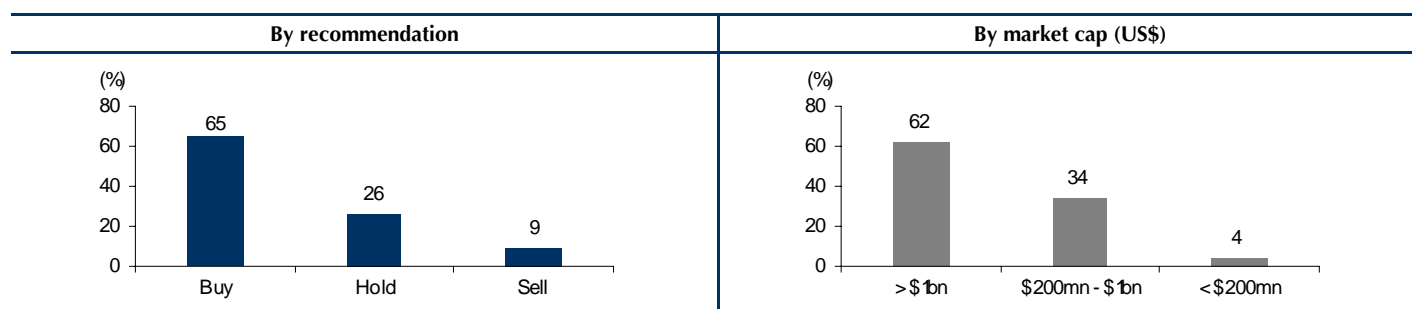
Date	Event	Reco price	Tgt price	Reco
2-Feb-10	Company Update	720	867	Buy
18-May-10	Company Update	789	1,000	Buy
10-Aug-10	Results Review	957	1,150	Buy
10-Nov-10	Results Review	1,270	1,450	Buy
12-Feb-11	Results Review	1,143	1,500	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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