

## Tata Motors

BSE SENSEX	S&P CNX
17,729	5,310
Bloomberg	TTMT IN
Diluted Eq. Shares (m)	664.6
52-Week Range (Rs)	1,381/664
1,6,12 Rel. Perf. (%)	3/14/57
M.Cap. (Rs b)	761.0
M.Cap. (US\$ b)	16.9

Rs1,145

Buy

YEAR	SALES	ADJ. PAT	ADJ EPS	NORMAL.	CONS.	NORMAL.	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	EPS (RS) ^	P/E (X)	P/E (X)	(%)	(%)	SALES	EBITDA
3/10A	925,193	15,051	22.6	-21.4	50.6	-53.6	18.3	10.7	1.0	10.4
3/11E	1,245,527	94,380	142.0	89.6	8.1	12.8	47.7	24.7	0.7	4.7
3/12E	1,455,596	110,028	165.6	113.7	6.9	10.1	37.5	24.4	0.6	4.0
3/13E	1,628,063	123,595	186.0	134.0	6.2	8.5	30.9	23.3	0.5	3.4

\* Consolidated; ^ Normalized for capitalized expenses

- Tata Motors' 3QFY11 performance was better than we had expected, with consolidated EBITDA margin of 15.2% (v/s our estimate of 14%) and recurring PAT of Rs24.5b (v/s our estimate of Rs21.1b). JLR continued its momentum of strong performance and reported a margin of 17.4%.
- Consolidated sales grew 23% YoY (~11% QoQ) to Rs318.6b (v/s our estimate of Rs301.8b), with EBITDA margin of 15.2% (up ~340bp YoY and 70bp QoQ). Adjusted PAT grew 202% YoY (~17.5% QoQ) to Rs24.5b.
- Standalone volumes grew 18% YoY (declined ~6.5% QoQ), with CV volumes growing 23% YoY (~2% QoQ). Realization grew 8.7% YoY (~7.1% QoQ). Standalone revenue grew 28% YoY (~8% QoQ) to Rs114.6b (v/s our estimate of Rs107.6b), translating into EBITDA margin of 10.4% (up 70bp QoQ, down 240bp YoY; v/s our estimate of 9.7%). Adjusted PAT grew 4% YoY (flat QoQ) to Rs4.34b (v/s our estimate of Rs3.05b).
- JLR's volumes grew 11% YoY (~15% QoQ) to 63,155 units (v/s our estimate of 60,500 units), while realization increased 21.8% YoY (~3.3% QoQ). EBITDA margin expanded by 80bp QoQ (~760bp YoY) to 17.4%, translating into PAT of GBP275m (v/s our estimate of GBP235m; GBP230m in 2QFY11).
- The management mentioned that margins are sustainable in the foreseeable future, as its cost cutting initiatives and price increases in the domestic market will offset the impact of cost push and adverse forex movement in JLR and domestic business.
- **Valuation and view:** We upgrade our EPS estimates by 12.5% to Rs165.6 for FY12 and by 18% to Rs186 for FY13, to factor in (a) higher JLR volumes and margins, and (b) higher domestic business margins. The stock is currently trading at 6.9x FY12E consolidated EPS of Rs165.6 and 10.1x FY12E consolidated normalized EPS (adjusted for R&D capitalization) of Rs113.7. Maintain **Buy**, with a target price of Rs1,529 (SOTP value based on FY12 estimates).

### CONSOLIDATED QUARTERLY PERFORMANCE

(RS MILLION)

	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Total Op Income</b>	<b>163,970</b>	<b>210,885</b>	<b>259,742</b>	<b>290,596</b>	<b>270,556</b>	<b>287,820</b>	<b>316,852</b>	<b>370,300</b>	<b>925,193</b>	<b>1,245,527</b>
<i>Growth (%)</i>	13.2	-8.3	46.7	85.1	65.0	36.5	22.0	27.43	30.5	34.6
<b>EBITDA</b>	<b>5,959</b>	<b>15,916</b>	<b>30,575</b>	<b>33,691</b>	<b>39,533</b>	<b>41,839</b>	<b>48,223</b>	<b>54,178</b>	<b>86,142</b>	<b>183,773</b>
<i>EBITDA Margins (%)</i>	3.6	7.5	11.8	11.6	14.6	14.5	15.2	14.6	9.3	14.8
Depreciation	8,442	8,479	13,072	8,878	10,115	10,949	12,388	13,392	38,871	46,844
Product Dev. Exp	930	858	857	2,337	979	1,823	3,337	2,502	4,982	8,641
Other Income	22	348	47	-1	346	186	99	1,716	416	2,346
Interest Expenses	5,835	5,590	5,458	5,514	5,616	5,313	4,993	7,266	22,397	23,188
<b>PBT before EO Exp</b>	<b>-9,227</b>	<b>1,337</b>	<b>11,235</b>	<b>16,962</b>	<b>23,168</b>	<b>23,941</b>	<b>27,604</b>	<b>32,734</b>	<b>20,307</b>	<b>107,447</b>
EO Exp/(Inc)	-6,528	-1,536	2,342	-9,198	414	-1,286	327	0	-14,919	-546
<b>PBT after EO Exp</b>	<b>-2,699</b>	<b>2,873</b>	<b>8,893</b>	<b>26,160</b>	<b>22,754</b>	<b>25,227</b>	<b>27,277</b>	<b>32,734</b>	<b>35,226</b>	<b>107,992</b>
Tax	643	2,894	2,429	4,092	2,960	3,131	3,188	4,262	10,058	13,542
<i>Tax rate (%)</i>	-23.8	100.7	27.3	15.6	13.0	12.4	11.7	13.02	28.6	12.5
<b>PAT</b>	<b>-3,341</b>	<b>-22</b>	<b>6,464</b>	<b>22,068</b>	<b>19,794</b>	<b>22,096</b>	<b>24,089</b>	<b>28,472</b>	<b>25,169</b>	<b>94,451</b>
Minority Interest	51	42	155	-552	-63	-112	-108	-247	-303	-530
Share in profit of Associate	3	197	-194	839	156	25	263	493	845	937
<b>Reported PAT</b>	<b>-3,288</b>	<b>218</b>	<b>6,426</b>	<b>22,355</b>	<b>19,887</b>	<b>22,008</b>	<b>24,244</b>	<b>28,717</b>	<b>25,711</b>	<b>94,857</b>
<b>Adj PAT</b>	<b>-11,370</b>	<b>229</b>	<b>8,128</b>	<b>14,596</b>	<b>20,247</b>	<b>20,882</b>	<b>24,533</b>	<b>28,717</b>	<b>15,051</b>	<b>94,380</b>
<i>Growth (%)</i>	-207.0	-90.2	LTP	LTP	LTP	9007.0	201.8	96.74	LTP	527.1

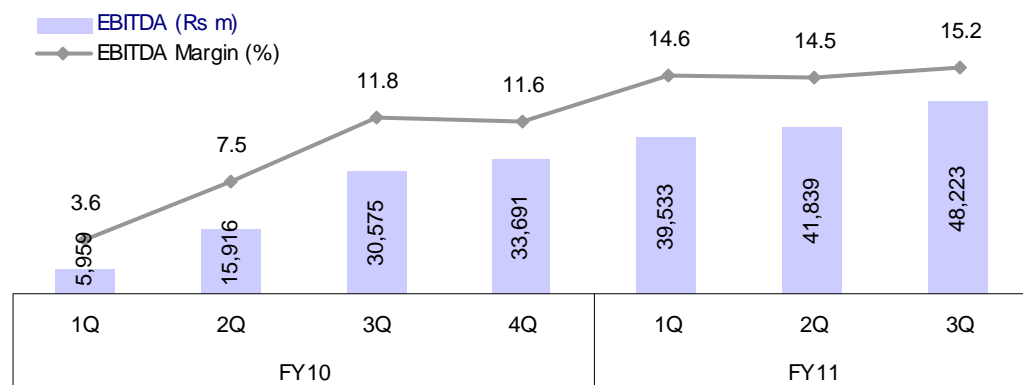
E: MOSL Estimates

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### Consolidated performance driven by improved JLR performance

Consolidated net sales grew 23% YoY (~11% QoQ) to Rs318.6b (v/s our estimate of Rs301.8b), with EBITDA margin of 15.2% (up ~340bp YoY and 70bp QoQ). Adjusted PAT grew 202% YoY (~17.5% QoQ) to Rs24.5b (v/s our estimate of Rs21.1b). Consolidated EPS (fully diluted) was Rs36.9 for 3QFY11 and Rs98.8 for 9MFY11.

#### Trend in consolidated EBITDA



Source: Company/ MOSL

### Standalone: 70bp QoQ margin expansion led by price increases and better product mix

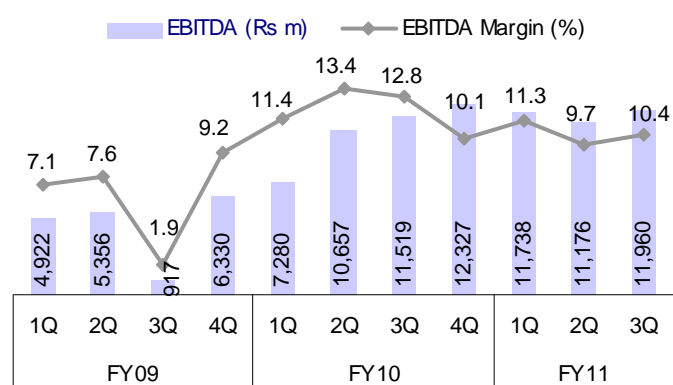
- Standalone volumes grew 17% YoY (~6.5% QoQ decline) to 194,085 units (v/s our estimate of 191,081 units). Realization was up 7% QoQ (~9.4% YoY), driven by price increase of ~1.3% with effect from 1 October 2010 and higher contribution from CVs. Revenue grew 28% YoY (8% QoQ) to Rs114.6b (v/s our estimate of Rs107.6b).
- EBITDA margin expanded 70bp QoQ (declined ~240bp YoY) to 10.4% (v/s our estimate of 9.7%), driven by price increase and better product mix. Also, RM cost declined 100bp QoQ (~150bp YoY) to 70%. EBITDA grew 4% YoY (~7% QoQ) to Rs12b (v/s our estimate of Rs10.5b), translating into adjusted PAT growth of 4% YoY (flat QoQ) to Rs4.3b (v/s our estimate of Rs3b).

#### Trend in segment mix \*

Segment	3QFY11	3QFY10	YoY (%)	2QFY11	QoQ (%)
M&HCVs	51,787	43,413	19.3	52,683	-1.7
Contribution (%)	26.7	26.2		25.4	
LCVs	76,001	58,472	30.0	69,895	8.7
Contribution (%)	39.2	35.3		33.7	
<b>Total CVs</b>	<b>127,788</b>	<b>101,885</b>	<b>25.4</b>	<b>122,578</b>	<b>4.3</b>
Contribution (%)	65.8	61.6		59.0	
Cars	56,824	57,001	-0.3	75,331	-24.6
Contribution (%)	29.3	34.5		36.3	
UVs	9,473	6,530	45.1	9,736	-2.7
Contribution (%)	4.9	3.9		4.7	
<b>Total Volumes</b>	<b>194,085</b>	<b>165,416</b>	<b>17.3</b>	<b>207,645</b>	<b>-6.5</b>

\* Including sale of FIAT vehicles

#### Trend in EBITDA



Source: Company/ MOSL

## QUARTERLY PERFORMANCE (STANDALONE)

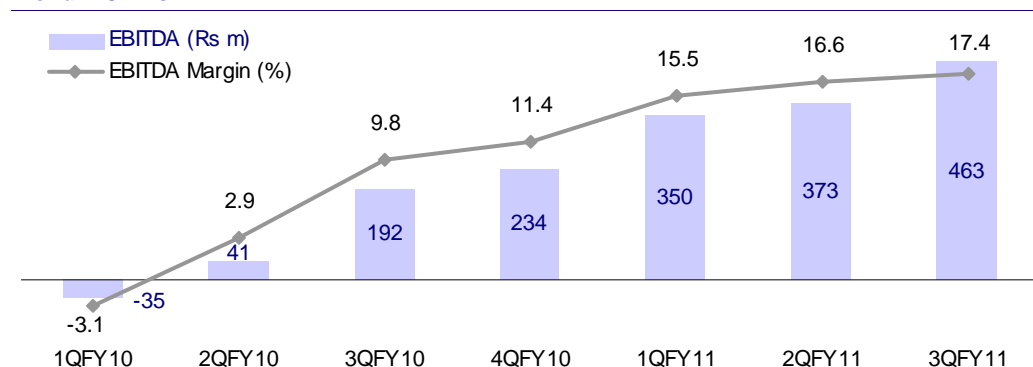
(RS MILLION)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Total Volumes (nos)</b>	<b>127,967</b>	<b>158,575</b>	<b>165,416</b>	<b>216,727</b>	<b>190,304</b>	<b>207,645</b>	<b>194,085</b>	<b>250,235</b>	<b>668,685</b>	<b>832,839</b>
<i>Change (%)</i>	-3.9	17.5	67.7	55.4	48.7	30.9	17.3	15.5	32.1	24.5
<b>Average Realisation</b>	<b>496,237</b>	<b>499,638</b>	<b>539,488</b>	<b>561,840</b>	<b>543,965</b>	<b>551,403</b>	<b>590,409</b>	<b>576,172</b>	<b>529,005</b>	<b>572,479</b>
<i>Change (%)</i>	-4.1	-4.1	12.9	17.1	9.6	10.4	9.4	2.6	5.9	6.1
<b>Net Sales</b>	<b>63,502</b>	<b>79,230</b>	<b>89,240</b>	<b>121,766</b>	<b>103,519</b>	<b>114,496</b>	<b>114,590</b>	<b>144,179</b>	<b>353,738</b>	<b>476,783</b>
<i>Change (%)</i>	-7.8	12.7	89.3	81.9	63.0	44.5	28.4	18.4	39.7	34.8
Other Operating Income	544	548	501	600	644	545	606	692	2,193	2,487
<i>RW/Sales (%)</i>	66.8	65.6	68.5	70.7	70.5	71.0	70.0	71.5	68.3	70.8
<i>Staff Costs/Sales (%)</i>	6.2	6.0	5.3	3.9	4.9	5.1	5.0	4.2	5.2	4.8
<i>OE/Sales (%)</i>	15.6	15.0	13.4	15.3	13.3	14.3	14.5	14.3	14.8	14.1
<b>EBITDA</b>	<b>7,280</b>	<b>10,657</b>	<b>11,519</b>	<b>12,327</b>	<b>11,738</b>	<b>11,176</b>	<b>11,960</b>	<b>14,572</b>	<b>41,783</b>	<b>49,445</b>
<i>EBITDA Margins (%)</i>	11.4	13.4	12.8	10.1	11.3	9.7	10.4	10.1	11.7	10.3
Non-Operating Income	5	510	2	1	693	775	54	308	517	1,830
Forex Gain / (Loss)	-55	-153	-242	-245	0	38	-305	0	-696	0
Interest	2,535	2,856	2,861	2,786	3,140	3,072	2,749	3,019	11,038	11,980
Depreciation & Amort.	2,291	2,634	2,641	2,772	3,074	3,316	3,371	3,527	10,339	13,288
Product Dev. Expenses	112	154	226	948	190	230	277	981	1,440	1,677
<b>PBT before EO Exp</b>	<b>2,347</b>	<b>5,522</b>	<b>5,792</b>	<b>5,821</b>	<b>6,027</b>	<b>5,333</b>	<b>5,617</b>	<b>7,353</b>	<b>19,483</b>	<b>24,330</b>
EO Exp/(Inc)	-3,134	-3,546	242	-2,375	660	-38	305	0	-8,813	927
<b>PBT after EO Exp</b>	<b>5,480</b>	<b>9,068</b>	<b>5,550</b>	<b>8,196</b>	<b>5,368</b>	<b>5,371</b>	<b>5,312</b>	<b>7,353</b>	<b>28,295</b>	<b>23,403</b>
Tax	343	1,777	1,549	2,226	1,419	1,045	1,211	1,707	5,895	5,383
<i>Effective Tax Rate (%)</i>	6.3	19.6	27.9	27.2	26.4	19.5	22.8	23.2	20.8	23.0
<b>PAT</b>	<b>5,138</b>	<b>7,291</b>	<b>4,001</b>	<b>5,970</b>	<b>3,948</b>	<b>4,326</b>	<b>4,101</b>	<b>5,645</b>	<b>22,401</b>	<b>18,021</b>
<i>Change (%)</i>	57.5	110.1	-252.0	-7.0	-23.2	-40.7	2.5	-5.4	123.7	-19.6
<b>Adj PAT</b>	<b>2,200</b>	<b>4,440</b>	<b>4,176</b>	<b>4,240</b>	<b>4,434</b>	<b>4,296</b>	<b>4,336</b>	<b>5,645</b>	<b>15,424</b>	<b>18,734</b>
<i>Change (%)</i>	-40.8	87.4	-376.6	218.9	101.5	-3.2	3.8	33.1	207.4	21.5

E: MOSL Estimates; includes sale of FIAT vehicles

**JLR: 80bp QoQ margin expansion to 17.4%, driven by higher realization and operating leverage**

- Volumes grew 11% YoY (~15% QoQ) to 63,155 units (v/s our estimate of 60,500 units), driven by 14.6% YoY (~22.5% QoQ) increase in LR volumes. However, Jaguar volumes remained flat YoY (down ~8% QoQ). Retail volumes grew 6% YoY to 58,368 units. Ex China, retail volumes were flat. Volume growth was aided by strong recovery across regions, as China market grew 71% YoY, Russia by 25% YoY and US by 16%. However, Europe and UK markets witnessed decline of 12% and 13%, respectively.
- Realization was up 21.8% YoY (~3.3% QoQ) to GBP42,119/unit (v/s our estimate of GBP40,555/unit), driven by better product and market mix, favorable forex movement and lower discounts. Revenue grew 35.6% YoY (~18.4% QoQ) to GBP2.66b.
- EBITDA margin expanded 80bp QoQ (~760bp YoY) to 17.4%, translating into EBITDA of GBP463m (v/s our estimate of GBP386m). However, higher depreciation and amortization (not quantified) restricted PAT to GBP275m.

**Trend in JLR's EBITDA**

Source: Company/ MOSL

## JLR QUARTERLY PERFORMANCE

GBP M	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Total Volumes</b>	<b>35,900</b>	<b>44,305</b>	<b>56,700</b>	<b>57,077</b>	<b>59,200</b>	<b>55,134</b>	<b>63,155</b>	<b>66,023</b>	<b>193,982</b>	<b>243,512</b>
<i>Growth (%) QoQ</i>	10.1	23.4	28.0	0.7	3.7	-6.9	14.5	4.5		
<b>Realization (GBP/unit)</b>	<b>31,337</b>	<b>32,166</b>	<b>34,586</b>	<b>35,806</b>	<b>38,209</b>	<b>40,759</b>	<b>42,119</b>	<b>41,900</b>	<b>33,791</b>	<b>40,801</b>
<i>Change YoY (%)</i>					21.9	26.7	21.8	17.0		
<b>Revenues</b>	<b>1,125</b>	<b>1,425</b>	<b>1,961</b>	<b>2,044</b>	<b>2,262</b>	<b>2,247</b>	<b>2,660</b>	<b>2,766</b>	<b>6,555</b>	<b>9,936</b>
<i>Growth (%)</i>					101.1	57.7	35.6	35.4	31.8	51.6
<b>EBITDA</b>	<b>-35</b>	<b>41</b>	<b>192</b>	<b>234</b>	<b>350</b>	<b>373</b>	<b>463</b>	<b>473</b>	<b>432</b>	<b>1,659</b>
<i>EBITDA Margins (%)</i>	-3.1	2.9	9.8	11.4	15.5	16.6	17.4	17.1	6.6	16.7
Depreciation & Amortization	69	58	118	76	87	90	120	107	321	404
Product Dev. Cost	11	9	8	20	11	22	33	34	48	100
Interest & Discounting charge:	13	10	11	15	17	11	15	16	49	59
<b>PBT before EO Exp</b>	<b>-128</b>	<b>-36</b>	<b>55</b>	<b>123</b>	<b>235</b>	<b>250</b>	<b>295</b>	<b>316</b>	<b>15</b>	<b>1,096</b>
EO Exp/(Inc)	-65	16	-2	40	1	-9	0	0	-11	-8
<b>PBT after EO Exp</b>	<b>-63</b>	<b>-52</b>	<b>57</b>	<b>83</b>	<b>234</b>	<b>259</b>	<b>295</b>	<b>316</b>	<b>26</b>	<b>1,104</b>
Taxes	2	9	2	16	13	21	20	23	29	77
<i>Tax rate (%)</i>	-3.2	-17.4	3.5	19.2	5.6	8.1	6.8	7.3	113.3	7.0
<b>PAT</b>	<b>-65</b>	<b>-61</b>	<b>55</b>	<b>67</b>	<b>221</b>	<b>238</b>	<b>275</b>	<b>293</b>	<b>-3</b>	<b>1,027</b>
<b>Adj PAT</b>	<b>-124</b>	<b>-30</b>	<b>53</b>	<b>100</b>	<b>222</b>	<b>230</b>	<b>275</b>	<b>293</b>	<b>-2</b>	<b>1,019</b>

E: MOSL Estimates

**Demand outlook remains positive with levers to offset cost push**

- The management indicated that it is yet to see any impact of higher interest rates on CV demand, as freight rates remain buoyant.
- For JLR, it is increasing manned capacity to 300,000 units (v/s current manned capacity of 240,000 units), which can be increased with further de-bottlenecking and productivity improvement measures. Demand momentum remains strong for its existing product range. This coupled with the launch of LR Evoque in the summer of 2011 would drive volumes in FY12. Also, it is working on the premium entry-level segment for Jaguar, to compete with BMW 3 series and Mercedes C series.
- The management believes that consolidated margins are sustainable at 14-15% levels. It believes it can offset the impact of cost-push (in domestic business as well as JLR) and adverse forex movement (in JLR) through price increase (~1-1.5% in domestic business from January 2011), on-going cost saving initiatives on both variable and fixed cost (in JLR) and operating leverage (both domestic business as well as JLR).

**Performance of other subsidiaries improves**

- **TML Finance:** Vehicle financing disbursements grew 18% YoY to Rs18.5b. The book size at the end of December 2010 for TMFL and TML (vehicle financing) was Rs82.9b and Rs3.3b, respectively. NIM for 9MFY11 was 10.3%. PAT declined 16% YoY to Rs328m.
- **HVAL and HVTL:** Recovery of CV market led to 35% YoY growth in revenue to Rs734m for HV Transmission. HV Axles' revenue grew 20% YoY to Rs726m. EBITDA margin for HV Transmission declined 380bp YoY to 54.2%. HV Axles' margin improved 110bp to 57.2%. Adjusted PAT was Rs215m (+49% YoY) for HV Transmission and Rs200m (+23.4% YoY) for HV Axles.
- **Tata Daewoo:** Net sales grew 12% YoY to Rs6.6b on account of 2.4% decline in volume and slower ramp-up in newly formed distribution Company. EBITDA margin at 3.6% translated into net loss of Rs44m.

**Trend in performance of key subsidiaries (Rs m)**

	Revenues			EBITDA Margins (%)			PAT		
	3QFY11	YoY (%)	QoQ (%)	3QFY11	YoY (BP)	QoQ (BP)	3QFY11	YoY (%)	QoQ (%)
JLR*	188,344	26.0	16.5	17.4	770	80	18706	351.8	15.5
Tata Daewoo	6,582	12.3	12.1	3.6	10	-300	-44	131.6	-157.1
Tata Technologies	3,130	12.2	6.1	12.5	-20	-340	283	29.8	-22.7
Tata Motor Finance	3,318	-3.7	-2.8	10.8	10	-450	328	-15.9	-26.9
HV Transmission	734	35.2	5.3	57.2	110	-120	215	49.3	6.4
HV Axles	726	19.6	-4.5	54.3	-370	-360	200	23.5	-11.5

Source: Company/MOSL

**Other highlights**

- Net consolidated debt (ex auto financing) post QIP issue stands at ~Rs150b.
- Higher wholesale sales in 3QFY11 were intended for building inventory for 2011 model year change and anticipated strong demand based on existing waiting period.
- For JLR, the management increase capex guidance to ~GBP1b (v/s GBP800m-1,000m earlier) for FY11. This is likely to increase with normative range of 10-11% of sales. It has already incurred GBP572m in 9MFY11.
- For JLR, it does not expect to pay tax in UK operations for the next 3-4 years, as it enjoys tax credit of GBP2b-2.5b.
- For domestic business, the company has adequate capacity in CV business (ex-Ace) as it currently operates at 60-65% utilization. However, it would need to add capacity for Ace platform, the decision on which would be made soon.
- It indicated that Nano volumes have picked up; it now sells ~10,000 units/month.

**2012 Land Rover Range Rover Evoque 5-door**

Source: Company/ MOSL



### Upgrading EPS estimates by 12.5% to Rs165.6 for FY12 and by 18% to Rs186 for FY13

We upgrade our EPS estimates by 12.5% to Rs165.6 for FY12 and by 18% to Rs186 for FY13, to factor in (a) higher JLR volumes and margins, and (b) higher domestic business margins. Our estimates factor in:

- Standalone estimates factor in volume growth of 13.6% (ex-Nano) in FY12 and 12.6% in FY13. We factor in EBITDA margin decline of 10bp in FY12 to 10.4% (v/s earlier estimate of 10%) driven by 70bp higher RM cost.
- For JLR, we are factoring in volumes of 280,000 units in FY12 (~15% growth) and 308,000 units in FY13 (~10% growth). We estimate EBITDA margin of 16.4% (v/s earlier estimate of 15.5%) and PAT of GBP1.17b.

#### Revised forecast (Rs M)

	FY12E			FY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
<b>Consolidated - Key Assumptions</b>						
Net Sales	1,455,596	1,393,300	4.5	1,628,063	1,554,843	4.7
EBITDA Margins (%)	14.5	13.8	70bp	14.1	13.1	100bp
Net Profit	110,028	97,846	12.5	123,595	104,881	17.9
Cons EPS	165.6	147.2	12.5	186.0	157.8	17.8
<b>JLR - Key Assumptions</b>						
Volumes	280,039	275,107	1.8	308,043	302,617	1.8
EBITDA Margins (%)	16.4	15.5	90bp	15.8	14.3	140bp
Net Profit	79,132	69,600	13.7	82,795	68,633	20.6
<b>Standalone - Key Assumptions</b>						
Volumes	1,022,063	1,021,843	0.0	1,162,167	1,183,413	-1.8
EBITDA Margins (%)	10.2	10.0	10bp	10.1	9.8	30bp
Net Profit	24,593	23,654	4.0	30,165	28,784	4.8

Source: MOSL

#### Valuation and view

Tata Motor's operating performance has positively surprised over the last few quarters, led by the performance of JLR. JLR's operating performance has improved very sharply and has surpassed standalone profitability. With volume momentum expected to remain strong in both standalone operations as well as JLR, we expect earnings growth to remain strong. The stock trades at 6.9x FY12E consolidated EPS and 10.1x FY12E consolidated normalized EPS (adj. for R&D capitalization). Maintain **Buy**, with a target price of Rs1,529.

#### Tata Motors: Sum-of-the-parts

Rs M	Valuation Parameter	Multiple (x)	FY12E	FY13E
Tata Motors - Standalone	EV/EBITDA	7	405,612	460,927
JLR (Adj for R&D capitalization)	EV/EBITDA	5	541,813	589,040
HV Axles	EV/EBITDA	5	10,389	11,563
HV Transmission	EV/EBITDA	5	9,648	10,746
Tata Technologies	EV/EBITDA	5	10,161	11,870
Tata Daewoo	EV/EBITDA	4	8,884	10,131
<b>Total EV</b>			<b>986,508</b>	<b>1,094,276</b>
Less: Net Debt (Ex FCCB & TMFL)			28,537	(40,375)
<b>Add: Other Investments</b>				
Tata Motors Finance	P/BV	1	17,187	19,401
Other Associates/JVs	Carrying Cost		8,207	9,915
Tata Sons	Market Value	50% Discount	32,972	32,972
<b>Total Equity Value</b>			<b>1,016,337</b>	<b>1,196,940</b>
<b>Fair Value (Rs/Share)</b>	<b>Fully Diluted</b>		<b>1,529</b>	<b>1,801</b>
<i>Upside (%)</i>			33.6	57.3

Source: MOSL

## Tata Motors: an investment profile

### Company background

Tata Motors is the largest commercial vehicle manufacturer in India. Its product portfolio includes passenger and goods segment carriers across all tonnage categories. Tata Motors also manufactures passenger cars and utility vehicles. It recently acquired Jaguar and Land Rover from Ford for US\$2.3b. This coupled with Tata Daewoo, makes it a global player in automobiles.

### Key investment arguments

- Underlying demand remains very strong, especially in the CV segment, as economic growth is picking up. Volumes would be driven by new product launches in FY11, robust demand for existing product portfolio and ramp-up at the Sanand plant for Nano.
- Significant turnaround in JLR performance backed by revival in key markets, favorable response to new product launches (Jaguar XJ, Land Rover 2010 models), coupled with cost saving initiatives.
- Investments in subsidiary and associate companies add substantially to valuations.

### Key investments risks

- Multiple headwinds in the short term in the form of increasing cost of ownership (price increases and

hardening interest rates) and cost of operations (increase in fuel prices) could impact short-term demand.

- Forex volatility and increase in commodity prices could impact profitability.

### Recent developments

- Has acquired 80% stake in Trilix Srl, Italy, a design & engineering company for EUR1.85m, with revenue of EUR4m.

### Valuation and view

- The stock is currently trading at 6.9x FY12E consolidated EPS of Rs165.6 and 10.1x FY12E consolidated normalized EPS (adjusted for R&D capitalization) of Rs113.7. Maintain **Buy**, with a target price of Rs1,529 (SOTP value based on FY12 estimates).

### Sector view

- The passenger vehicle segment is expected to continue its growth momentum. With low car penetration levels in India, the upside potential for growth is tremendous.
- The CV segment would benefit from uptrend in manufacturing activity, good monsoon season and government focus on infrastructure.

### Comparative valuations

		TML	M&M	Maruti
P/E (x)	FY11E	8.1	15.1	14.7
	FY12E	6.9	13.6	12.2
EPS Gr (%)	FY11E	527.1	27.6	-7.4
	FY12E	16.6	11.3	20.5
RoE (%)	FY11E	47.7	24.1	16.4
	FY12E	37.5	22.4	17.0
EV/EBITDA(x)	FY11E	4.7	9.3	7.4
	FY12E	4.0	7.7	5.9

### Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	35.0	37.1	38.2
Domestic Inst	13.7	17.5	17.3
Foreign	43.2	36.4	34.9
Others	8.1	8.9	9.7

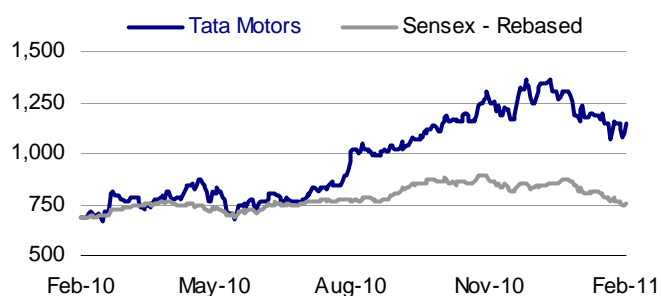
### EPS: MOSL forecast v/s consensus (Rs)

	MOSL Forecast	Consensus forecast	Variation (%)
FY11	142.0	132.0	7.6
FY12	165.6	153.5	7.9

### Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
1,145	1,529	33.6	Buy

### Stock performance (1 year)



## Financials and Valuation

INCOME STATEMENT (CONSOLIDATED)		(RS MILLION)			
Y/E MARCH	2010	2011E	2012E	2013E	
<b>Total Income</b>	<b>925,193</b>	<b>1,245,527</b>	<b>1,455,596</b>	<b>1,628,063</b>	
<i>Change (%)</i>	30.5	34.6	16.9	11.8	
Expenditure	839,051	1,061,754	1,244,645	1,398,790	
<b>EBITDA</b>	<b>86,142</b>	<b>183,773</b>	<b>210,951</b>	<b>229,273</b>	
<i>Change (%)</i>	292.2	113.3	14.8	8.7	
<i>% of Net Sales</i>	9.3	14.8	14.5	14.1	
Depreciation	38,871	46,844	53,954	58,217	
<b>EBIT</b>	<b>47,270</b>	<b>136,929</b>	<b>156,997</b>	<b>171,055</b>	
Product development Exp.	4,982	8,641	9,073	9,527	
Interest	22,397	23,188	23,246	20,522	
Other Income	416	2,346	2,834	3,047	
<b>PBT</b>	<b>35,226</b>	<b>107,992</b>	<b>127,511</b>	<b>144,053</b>	
Tax	10,058	13,542	18,299	21,470	
<i>Effective Rate (%)</i>	28.6	12.5	14.4	14.9	
<b>Reported PAT</b>	<b>25,169</b>	<b>94,451</b>	<b>109,213</b>	<b>122,584</b>	
<i>Change (%)</i>	-202.1	275.3	15.6	12.2	
<i>% of Net Sales</i>	2.7	7.6	7.5	7.5	
Minority Interest	-303.3	-530.4	-612.6	-697.5	
Share of profit of associate	845.0	936.7	1,427.8	1,708.4	
<b>Net Profit</b>	<b>25,711</b>	<b>94,857</b>	<b>110,028</b>	<b>123,595</b>	
<b>Adj. PAT</b>	<b>15,051</b>	<b>94,380</b>	<b>110,028</b>	<b>123,595</b>	
<i>Change (%)</i>	-171.2	527.1	16.6	12.3	

E: MOSL Estimates; \* Normalized for capitalized expenses

BALANCE SHEET (CONSOLIDATED)		(RS MILLION)			
Y/E MARCH	2010	2011E	2012E	2013E	
Share Capital	5,706	6,157	6,157	6,368	
Reserves	76,359	191,715	287,336	394,166	
<b>Net Worth</b>	<b>82,065</b>	<b>197,871</b>	<b>293,492</b>	<b>400,534</b>	
Loans	351,924	351,924	347,615	331,376	
Minority Interest	2,135	2,665	3,278	3,976	
Deferred Tax	11,536	11,536	11,536	11,536	
<b>Capital Employed</b>	<b>447,660</b>	<b>563,997</b>	<b>655,922</b>	<b>747,422</b>	
Gross Fixed Assets	648,518	733,518	818,518	888,518	
Less: Depreciation	344,135	390,979	444,933	503,151	
<b>Net Fixed Assets</b>	<b>304,383</b>	<b>342,539</b>	<b>373,585</b>	<b>385,368</b>	
Capital WIP	80,680	50,000	50,000	30,000	
Goodwill	34,229	34,229	34,229	34,229	
Investments	22,191	23,128	24,556	26,264	
<b>Curr.Assets</b>	<b>425,296</b>	<b>608,131</b>	<b>717,960</b>	<b>857,329</b>	
Inventory	113,120	152,287	177,971	199,058	
Sundry Debtors	71,912	96,810	113,138	126,543	
Cash & Bank Balances	87,433	164,203	190,020	252,897	
Loans & Advances	152,807	194,807	236,807	278,807	
Others	24	24	24	24	
<b>Current Liab. &amp; Prov.</b>	<b>417,208</b>	<b>494,029</b>	<b>544,407</b>	<b>585,767</b>	
Sundry Creditors	221,875	298,697	349,074	390,435	
Other Liabilities	118,898	118,898	118,898	118,898	
Provisions	76,435	76,435	76,435	76,435	
<b>Net Current Assets</b>	<b>8,088</b>	<b>114,101</b>	<b>173,553</b>	<b>271,562</b>	
<b>Appl. of Funds</b>	<b>447,660</b>	<b>563,997</b>	<b>655,922</b>	<b>747,422</b>	

E: MOSL Estimates

RATIOS (CONSOLIDATED)					
Y/E MARCH	2010	2011E	2012E	2013E	
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>26.4</b>	<b>153.3</b>	<b>178.7</b>	<b>194.1</b>	
<b>EPS Fully Diluted</b>	<b>22.6</b>	<b>142.0</b>	<b>165.6</b>	<b>186.0</b>	
<b>Normalized EPS *</b>	<b>-21.4</b>	<b>89.6</b>	<b>113.7</b>	<b>134.0</b>	
Cash EPS	94.5	229.4	266.3	285.5	
Book Value (Rs/Share)	143.8	321.4	476.7	628.9	
DPS	15.1	17.5	20.0	22.5	
Payout (Incl. Div. Tax) %	65.9	13.4	13.1	13.6	
<b>Valuation (x)</b>					
Consolidated P/E	50.5	8.1	6.9	6.2	
Cash P/E	12.1	5.0	4.3	4.0	
EV/EBITDA	10.4	4.7	4.0	3.4	
EV/Sales	1.0	0.7	0.6	0.5	
Price to Book Value	8.0	3.6	2.4	1.8	
Dividend Yield (%)	1.3	1.5	1.7	2.0	
<b>Profitability Ratios (%)</b>					
RoE	18.3	47.7	37.5	30.9	
RoCE	10.7	24.7	24.4	23.3	
<b>Turnover Ratios</b>					
Debtors (Days)	28	28	28	28	
Inventory (Days)	45	45	45	45	
Creditors (Days)	88	88	88	88	
Asset Turnover (x)	2.1	2.2	2.2	2.2	
<b>Leverage Ratio</b>					
Debt/Equity (x)	4.3	1.8	1.2	0.8	

CASH FLOW STATEMENT (CONSOLIDATED)		(RS MILLION)			
Y/E MARCH	2010	2011E	2012E	2013E	
OP/(Loss) before Tax	47,270	136,929	156,997	171,055	
Interest/Div. Received	23,055	2,346	2,834	3,047	
Depreciation & Amort.	38,826	46,844	53,954	58,217	
Direct Taxes Paid	12,292	-13,542	-18,299	-21,470	
(Inc)/Dec in W/kg. Capital	-26,009	-29,244	-33,635	-35,132	
Other Items	464	-9,616	-7,645	-7,818	
<b>CF after EO Items</b>	<b>93,269</b>	<b>134,264</b>	<b>154,207</b>	<b>167,900</b>	
(Inc)/Dec in FA+C/WIP	-84,532	-54,320	-85,000	-50,000	
(Pur)/Sale of Invest.	9,202	-937	-1,428	-1,708	
<b>CF from Inv Activity</b>	<b>-75,331</b>	<b>-55,256</b>	<b>-86,428</b>	<b>-51,708</b>	
Issue of Shares	16,852	33,556	0	211	
Inc/(Dec) in Debt	40,317	0	-4,308	-16,239	
Interest Paid	-28,553	-23,188	-23,246	-20,522	
Dividends Paid	-3,496	-12,606	-14,407	-16,765	
<b>CF from Fin Activity</b>	<b>25,119</b>	<b>-2,238</b>	<b>-41,962</b>	<b>-53,314</b>	
<b>Inc/(Dec) in Cash</b>	<b>43,058</b>	<b>76,769</b>	<b>25,817</b>	<b>62,877</b>	
Add: Beginning Balance	41,213	87,433	164,203	190,020	
<b>Closing Balance</b>	<b>87,433</b>	<b>164,203</b>	<b>190,020</b>	<b>252,897</b>	

E: MOSL Estimates



**N O T E S**



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**Tata Motors**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
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| 3. Broking relationship with company covered            | No |
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