

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	TELC.BO
Bloomberg code	TTMT IN
Market cap. (US\$ mn)	5,546
6M avg. daily turnover (US\$ mn)	60.3
Issued shares (mn)	544
Target price (Rs)	565

Performance (%) 1M 3M 12M

Absolute	(9)	45	232
Relative	(9)	33	72

Valuation ratios (Standalone)

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	27.7	37.2
+/- (%)	284.9	34.7
PER (x)	19.5	14.5
PBV (x)	2.0	1.9
Dividend/Yield (%)	1.5	1.9
EV/Sales (x)	1.2	1.0
EV/EBITDA (x)	9.5	8.1

Major shareholders (%)

Promoters	42
FII's	9
MF's	3
BFSI's	16
Public & Others	30

Financial highlights (Standalone)

(Rs mn)	2QFY10	2QFY09	YoY(%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY(%)	FY10E	YoY(%)	FY11E	YoY(%)
Net Sales	79,788	70,789	12.7	64,046	24.6	140,073	143,835	2.7	314,588	21.7	390,643	24.2
EBITDA	10,503	5,649	85.9	7,168	46.5	10,874	17,671	62.5	39,839	111.8	47,051	18.1
EBITDA Margins (%)	13.2	8.0	5.2	11.2	2.0	7.8	12.3	4.5	12.7	5.4	12.0	(0.6)
Other Income	357	1,443	(75.3)	(51)	(803.6)	2,600	306	(88.2)	1,750	237.2	1,837	5.0
Interest	2,856	1,483	92.6	2,535	12.7	2,606	5,391	106.9	12,784	57.6	11,305	(11.6)
Depreciation	2,634	2,029	29.8	2,291	15.0	3,837	4,925	28.4	10,513	20.2	12,237	16.4
PBT	5,369	3,580	50.0	2,292	134.3	7,031	7,661	9.0	18,292	639.4	25,346	38.6
Tax	1,777	110	1512.6	343	418.4	300	2,120	606.6	3,658	(789.9)	5,069	38.6
PAT	3,592	3,470	3.5	1,949	84.3	6,731	5,541	(17.7)	14,633	387.1	20,275	38.6
Reported PAT	7,291	3,470	110.1	5,138	41.9	6,731	12,429	84.7	21,521	114.9	20,275	(5.8)
Standalone EPS (Rs)	7.0	9.0	(22.3)	3.8	84.3	17.5	10.8	(38.5)	27.7	284.9	37.2	34.7

Tata Motors

Upgrade to Outperformer

Price: Rs 539

BSE Index: 16,741

27 October 2009

2QFY10 Result – Making the most of CV recovery

Tata Motors (TTMT) standalone operating performance was better than our expectations with margins of 13.2% against our expectation of 12.8%. Net sales stood at Rs 79.8 bn (up 12.7%) against our expectation of Rs 79.0 bn. Net sales growth was driven by 12.3% volume growth and flat realisations. QoQ the realisations improved by 2% despite launch of Nano due to higher MHCV volumes (up 32%) and pricing action of 1.5% on MHCVs taken during the quarter. Commodity costs continued to see decline (down 120 bps QoQ) more due to better sales mix (CVs 63.8% of volumes versus 61.9% in 1QFY10). Employee expenses increased by 21.0% QoQ, in line with the volume growth. Operating profit grew by 86% to Rs 10.5 bn against our expectation of Rs 10.1 bn. Benefits of stronger operating performance was negated by a higher tax outgo of Rs 1.8 bn or 33.1% of PBT against 15% in 1QFY10. The management during the conference call reiterated that the full year tax rate will be around 20% implying a tax rate of around 15% for 2HFY10. Adjusted PAT stood at Rs 3.6 bn and reported PAT stood at Rs 7.3 bn. Higher reported PAT was due to a tax free gain of Rs 3.7 bn on sale of Tata Steel shares.

In addition to the 2.5% price increase in 1HFY10 on MHCVs the company has further increased prices by 1% w.e.f. 01 October 2009. This pricing action was followed by Ashok Leyland which increased prices by a similar quantum. Both these players have been increasing prices frequently and the recent pricing actions suggest buoyant demand as there has been not much increase in commodity costs in 1HFY10. Lacklustre performance of its car business has only helped to improve the overall profitability.

We are upward revising our volume assumptions for FY10E and FY11E to factor in stronger growth in CVs, lower production of Nano and expected improvement in sale of Indigo (key assumptions on page 3). Our operating margins have also been upward revised due to better profitability and higher operating leverage going forward. Our revised standalone EPS for FY10E and FY11E are Rs 27.7 and Rs 37.2, respectively. Higher growth in CV sales and failure of M&M proposed LCV launch are the key upside risk while increase in interest rates and rollback of excise benefits are the key downside risks.

During the quarter the standalone net debt increased by Rs 17 bn to Rs 186 bn. This saw a further increase of ~Rs 17.6 bn (US\$ 375 mn) after the quarter due to the issue of convertible notes. However, the standalone debt/equity ratio improved to 1.3x due to the issue of US\$ 375 mn worth equity. The company will be announcing the consolidated 2QFY10 results by the next month end.

Due to the shift of JLR acquisition debt to the standalone books from the subsidiaries we are changing the standalone valuation methodology from PE to EV/EBITDA. We are valuing the standalone business at 9x EV/EBITDA. We continue to value JLR at a discount (3x EV/EBITDA) to other luxury car manufacturers due to high capitalisation of product development expenses.

Improvement in standalone profitability has resulted in a significant increase in our sum-of-the-parts (SOTP) value. Our revised SOTP based target price is Rs 565 and we upgrade the stock to Outperformer. JLR acquisition, poor quality of earnings and high debt levels continue to remain our concerns. However, the strong cyclical buoyancy in the domestic CV operations and healthy pricing environment will considerably improve the standalone business outweighing the negatives in the medium term. We would be positive on the consolidated operations if the company is able to reduce its exposure to JLR by bringing in a financial partner.

SOTP valuation

Based on FY11E	Method	Multiple (x)	Discount (%)	Value per share (Rs)
Tata Motors standalone	EV/EBITDA	9.0		404
JLR	EV/EBITDA	3.0		81
Tata Daewoo CV	PE	12.0	20	21
Telcon (60%)	PE	12.0	20	22
Tata Technologies	PE	12.0	20	9
HV Transmission (85%)	PE	8.0	20	7
HV Axles (85%)	PE	8.0	20	8
Tata Motors Finance	P/B	1.5	20	13
SOTP target price				565

Key assumptions

(units)	Revised		Earlier		1HFY10	Residual FY10E
	FY10E	FY11E	FY10E	FY11E		
MHCV	153,730	186,736	137,708	179,718	66,886	86,844
YoY (%)	25.0	21.5	12.0	30.5	(9.8)	78.0
LCV	209,585	227,894	192,739	213,683	105,187	104,398
YoY (%)	24.4	8.7	14.4	10.9	18.0	31.7
PV (Excluding Nano)	195,030	201,754	211,813	238,696	93,914	101,116
YoY (%)	(5.6)	3.4	(1.4)	12.7	(8.6)	(2.7)
Nano	30,000	183,000	40,000	180,000	7,500	22,500
YoY (%)	0.0	510.0	–	350	–	–
Total Volume	588,346	799,384	582,259	812,097	273,487	314859
YoY (%)	18.1	35.9	15.0	39.5	2.8	35.7
Realisation (Rs)	534,699	488,680	508,678	466,082	525,928	542,318
YoY (%)	3.1	(8.6)	(0.3)	(8.4)	(0.07)	10.1
EBITDA Margins (%)	12.7	12.0	11.0	10.0	12.3	13.0
EPS (Rs)	27.7	37.2	21.7	28.7	10.8	16.9
YoY (%)	304.5	34.7	218.1	31.9	(38.2)	–

Vehicle sales

(Units)	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)
MHCV	38,044	35,820	6.2	28,842	31.9	74,189	66,886	(9.8)
LCV	57,863	48,374	19.6	47,324	22.3	89,171	105,187	18.0
Commercial Vehicle	95,907	84,194	13.9	76,166	25.9	163,360	172,073	5.3
Car	46,572	40,189	15.9	38,812	20.0	80,644	85,384	5.9
MUV	7,898	9,569	(17.5)	8,132	(2.9)	22,132	16,030	(27.6)
Passenger Vehicle	54,470	49,758	9.5	46,944	16.0	102,776	101,414	(1.3)
Total	150,377	133,952	12.3	123,110	22.1	266,136	273,487	2.8

% of sales

	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)
Material cost	65.6	72.9	(7.3)	66.8	(1.2)	72.5	66.1	(6.3)
Staff cost	6.0	5.9	0.2	6.2	(0.2)	5.8	6.1	0.3
Other Expenses	15.2	13.2	1.9	15.8	(0.6)	13.9	15.4	1.5
EBITDA Margin	13.2	8.0	5.2	11.2	2.0	7.8	12.3	4.5

Per vehicle

(Rs)	2QFY10	2QFY09	YoY (%)	1QFY10	QoQ (%)	1HFY09	1HFY10	YoY (%)
Realisations	530,588	528,462	0.4	520,236	2.0	526,321	525,928	(0.1)
Material cost	348,228	385,374	(9.6)	347,498	0.2	381,425	347,900	(8.8)
Employee cost	32,055	31,038	3.3	32,360	(0.9)	30,687	32,193	4.9
Other expenses	80,462	69,878	15.1	82,154	(2.1)	73,349	81,224	10.7
EBITDA	69,842	42,172	65.6	58,224	20.0	40,860	64,612	58.1

Source: Company

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	282,655	256,546	312,730	388,561
<i>Growth (%)</i>	3.9	(9.2)	21.9	24.2
Operating expenses	(258,636)	(239,595)	(274,750)	(343,594)
Operating profit	24,019	16,951	37,979	44,967
Other operating income	1,581	1,858	1,858	2,081
EBITDA	25,600	18,809	39,838	47,049
<i>Growth (%)</i>	(17.4)	(26.5)	111.8	18.1
Depreciation	(6,523)	(8,745)	(10,513)	(12,237)
Other income	7,563	519	1,750	1,837
EBIT	26,639	10,583	31,075	36,649
Interest paid	(4,256)	(8,109)	(12,784)	(11,305)
Pre-tax profit	22,383	2,474	18,291	25,344
(before non-recurring)				
Non-recurring items	2,874	7,009	6,888	0
Pre-tax profit	25,258	9,482	25,179	25,344
(after non-recurring)				
Tax (current + deferred)	(4,968)	530	(3,658)	(5,069)
Net profit (before Minority Interest, Pref. Dividend, etc.)	20,289	10,013	21,521	20,275
Prior period adjustments	0	153	0	0
Reported PAT	20,289	10,166	21,521	20,275
Adjusted net profit	17,415	3,157	14,633	20,275
<i>Growth (%)</i>	(9.0)	(81.9)	363.5	38.6

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable securities	31,921	11,458	26,726	24,054
Other current assets	79,865	85,498	92,680	103,723
Investments	41,155	129,642	175,477	175,368
Net fixed assets	104,523	145,993	141,669	157,513
Other non-current assets	4,003	11,449	11,449	11,449
Total assets	261,466	384,039	448,001	472,107
Current liabilities	106,566	108,355	131,258	158,694
Total debt	62,805	131,656	155,774	136,575
Other non-current liabilities	13,760	20,107	20,357	22,358
Total liabilities	183,132	260,118	307,389	317,627
Share capital	3,855	5,140	5,444	5,444
Reserves & surplus	74,540	118,801	135,189	149,057
Less: Misc. expenditure	(61)	(20)	(20)	(20)
Shareholders' funds	78,335	123,921	140,613	154,481
Total equity & liabilities	261,466	384,039	448,001	472,107
Capital employed	154,900	275,683	316,743	313,413

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	25,258	9,482	25,179	25,344
Depreciation	6,523	8,745	10,513	12,237
Change in working capital	46,441	(704)	14,045	15,118
Total tax paid	(3,079)	(569)	(3,408)	(3,068)
Cash flow from oper. (a)	75,142	16,955	46,329	49,632
Capital expenditure	(46,067)	(49,634)	(6,190)	(28,081)
Change in investments	(24,333)	(80,578)	(45,835)	109
Others	(993)	(541)	0	0
Cash flow from inv. (b)	(71,392)	(130,754)	(52,025)	(27,972)
Free cash flow (a+b)	3,750	(113,799)	(5,696)	21,660
Equity raised/(repaid)	(3,991)	39,576	304	0
Debt raised/(repaid)	22,714	68,850	24,118	(19,199)
Dividend (incl. tax)	(6,763)	(6,597)	(3,457)	(5,133)
Others	(4)	(585)	0	0
Cash flow from fin. (c)	11,956	101,244	20,965	(24,331)
Net change in cash (a+b+c)	15,706	(12,555)	15,269	(2,672)

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	45.2	7.2	27.7	37.2
Growth	(9.3)	(84.1)	284.9	34.7
Book NAV/share (Rs)	203.2	282.0	265.7	283.8
Dividend/share (Rs)	15.0	7.1	8.3	10.1
Dividend payout ratio	37.9	109.5	35.1	31.6
Tax	19.7	(5.6)	14.5	20.0
EBITDA margin	9.0	7.3	12.7	12.0
EBIT margin	9.4	4.1	9.9	9.4
RoCE	19.5	4.9	10.5	11.6
Net debt/Equity	39.4	97.0	91.8	72.8

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	11.9	75.1	19.5	14.5
PCE	8.7	19.9	11.4	9.0
Price/Book	2.7	1.9	2.0	1.9
Yield (%)	2.8	1.3	1.5	1.9
EV/Net sales	1.3	1.5	1.2	1.0
EV/EBITDA	14.8	20.1	9.5	8.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	6.2	1.2	4.7	5.2
Asset turnover	1.2	0.8	0.8	0.8
Leverage factor	3.1	3.2	3.1	3.1
Return on equity (%)	23.7	3.1	11.1	13.7

Pramod Kumar
pramod.kumar@bksec.com
+91 -22-4031 7106

Sharad Tripathi
sharad.tripathi@bksec.com
+91 -22-4031 7126

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Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

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