

RESULTS REVIEW

Share Data

Market Cap	Rs. 245.2 bn
Price	Rs. 635.95
BSE Sensex	15,760.52
Reuters	TAMO.BO
Bloomberg	TTMT IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 840/535
Shares Outstanding	385.5 mn

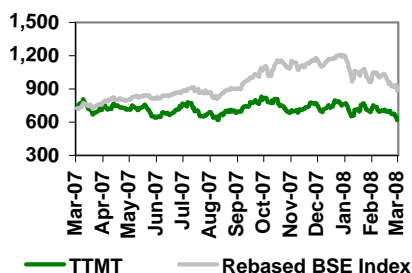
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	45.5	51.9
+/- (%)	(11.8)%	13.9%
PER (x)	14.0x	12.3x
EV/ Sales (x)	0.9x	0.7x
EV/ EBITDA (x)	7.2x	6.1x

Shareholding Pattern (%)

Promoters	33
FII's	17
Institutions	17
Public & Others	32

Relative Performance



Tata Motors

Buy

Regaining momentum

During Q3'08, Tata Motors Limited (TTMT) reported a better than expected top line growth, led by an improvement in price realisations and a marginal increase in volumes. Despite the sluggishness in the auto industry due to high interest rates, the Company reported an increase of 2% yoy in volumes to 145k units. We believe that the interest rate cycle has peaked and any reduction in the interest rates will lead to an increase in volumes. Further, with the launch of Tata's low-priced small car Nano in FY09E, we expect the volumes to witness a significant improvement.

Net sales for the quarter increased by 12.9% yoy to Rs. 92.4 bn driven by a substantial increase of 10.8% yoy in the average price realisations. Adj. EBITDA increased 17.9% yoy to Rs. 12.6 bn, and EBITDA margin improved 60 bps yoy to 13.7% . The Company aggressively pursued cost reduction initiatives to combat input price increases during the quarter. While adj. net profit increased 14.5% yoy to Rs. 6.4 bn driven by a more than eight fold increase in other income, net profit margin remained relatively flat at 6.9%.

We have revised our net sales estimate to Rs.356.8 bn and Rs. 422.1 bn for FY08E and FY09E, respectively, to factor in the increase in the average realisation rate and the expected increase in volumes due to the launch of 'Nano' in FY09E.

At the current price, the stock is trading at a P/E of 14x for FY08E and 12.3x for FY09E earnings. Based on our valuation, we continue to remain positive on the long-term growth prospects of TTMT, and reiterate our Buy rating on the stock with a revised target price of Rs. 830 for FY09E.

Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08*	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
Net Sales	81,794	81,292	92,385	12.9%	13.6%	226,336	249,990	10.5%
Adj. EBITDA	10,697	9,574	12,613	17.9%	31.7%	27,726	30,622	10.4%
Adj. Net Profit	5,551	4,899	6,357	14.5%	29.8%	14,962	14,873	(0.6)%

Margins(%)

EBITDA	13.1%	11.8%	13.7%		12.3%	12.2%
NPM	6.8%	6.0%	6.9%		6.6%	5.9%

Per Share Data (Rs.)

Adj. EPS	13.7	11.6	14.9	8.9%	29.1%	38.9	38.6	(0.9)%
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*Net sales excludes extra ordinary item of Rs. 760 mn on account of transfer of technology

Result Highlights

Quarterly Data	Q3'07	Q3'08	YoY%
Domestic			
M&HCV	44,826	43,882	(2.1)%
LCV	32,400	38,686	19.4%
Total CV	77,226	82,568	6.9%
Small	34,910	32,269	(7.6)%
Mid-Size	6,656	5,746	(13.7)%
UV	11,425	11,269	(1.4)%
Total PV*	52,991	49,284	(7.0)%
Total Domestic	130,217	131,852	1.3%
Exports	11,610	12,756	9.9%
Total	141,827	144,608	2.0%

*Includes the sales of Fiat vehicles

Mature product portfolio and high interest rate hampered PV segment performance

Average realisations increased 10.8% yoy to Rs. 638,864 per unit

Effective tax rate declined 110 bps yoy to 30.9% of net sales

For the quarter ended Dec'07, Tata Motor's sales volume registered a marginal growth of 2% yoy, adversely impacted by a high level of interest rates prevailing in the country. Both the Commercial Vehicle (CV) and Passenger Vehicle (PV) segments lagged behind the industry growth of 5.8% yoy and 12.7% yoy, respectively. However, the Company's export volumes witnessed a sharp increase of 9.9% yoy.

Volumes in the CV segment rose by 6.9% yoy, led by a robust growth of 19.4% yoy in the LCVs due to high demand of Ace and Winger. However, cautious sentiments of the truck buyers towards high interest rates and lower industrial growth led to the decline of 2.1% yoy in the M&HCVs. Consequently, the total CV segment witnessed a dip in the market share for Q3'08 by 70 bps yoy to 63.3%.

The PV segment registered a decline of 7% yoy due to a substantial dip in the sales volume of the mid-size and small cars. The challenging market environment and a mature product portfolio of the Company led to the decline of volumes in the PV segment. Moreover, high fuel prices and interest cost discouraged the consumers from purchasing new cars. As a result, the PV segment witnessed a considerable dip of 290 bps yoy in the market share to 12.8%.

During Q3'08, net sales increased 12.9% yoy to Rs. 92.4 bn, led by higher realisations and a marginal improvement in volumes (up 2% yoy). The improvement in realisations was driven by price hikes and changes in the product mix undertaken by the Company. Further, the robust performance by the Company's subsidiaries also contributed to the increase in net sales.

Adj. EBITDA grew 17.9% yoy to Rs. 12.6 bn, and EBITDA margin improved 60 bps yoy to 13.7%. The Company aggressively pursued cost reduction initiatives to combat input price increases during the quarter. As a result, raw material cost declined by 50 bps yoy to 67.4% of net sales. Further, led by an eight fold increase in other income to Rs. 862 mn, adj. net profit went up 14.5% yoy to Rs. 6.4 bn. However, net profit margin remained relatively flat at 6.9%, as the reduction in the effective tax rate was offset by increased interest charges (up 110 bps yoy to 2.4% of net sales).

Key Events

- Tata's much awaited small car 'Nano' was unveiled at the Auto Expo on Jan 10, 2008. The car gained rave public reviews and is expected to be launched by Sep'08. With this launch, we expect the Company to gain significant improvement in the sales volume.
- The Company sold 11.1% of its holding in its wholly owned subsidiary, HV Axles Ltd (HVAL), at a profit of Rs. 650 mn.
- TTMT is planning to raise additional long-term resources upto Rs. 40 bn by issue of securities in the foreign and domestic market. The resources would be utilised for enhancing the Company's product portfolio, expanding the manufacturing facilities in India, and making strategic acquisitions.

Key Risks

Key risks to our rating include:

- Delay in the launch of small car 'Nano'
- Unanticipated increase in the prices of raw materials such as steel, aluminium, other non-ferrous metals, rubber, and engineering plastics
- Fluctuations in auto loan interest rates

Outlook

The prolonged sluggishness in the auto industry due to the high level of interest rates continues to impact the performance of the Company. Despite the prevailing slowdown, we remain positive on the long-term growth prospects of Tata Motors. The Company has unveiled several new products at the Auto Expo, such as the new Indica, Sumo Grande, Xenon (pick-up truck), Indica DICOR, and Indigo CS. With expected softening of interest rates and new product launches, we expect the volumes to regain momentum in the upcoming quarters.

The Company's alliances with Iveco, Marcopolo and the global truck project in line, would provide a boost to the CV segment. Further, Tata Motors has set up a joint venture with Thonburi in Thailand for the manufacture and sale

We maintain that volumes are expected to revive by FY09E

*Tata Motors invested
Rs. 4.4 bn for 49% stake in JV
with Fiat*

of pick-up trucks. With global alliances taking place and softening of interest rates, we believe that volumes in the CV segment would improve in the upcoming quarters.

The PV segment is presently witnessing a subdued performance due to the mature product portfolio and stiff competition. While in the PV segment the industry witnessed a growth of 12.7% yoy for 9M'08, the Company's volumes declined by 2.8% yoy. However, with the launch of 'Nano', Fiat Linea, and Grande Punto (in JV with Fiat) in FY09E, we expect the PV segment to report a turnaround in volumes for FY09E.

We have revised our net sales estimate to Rs.356.8 bn and Rs. 422.1 bn for FY08E and FY09E, respectively, to factor in the increase in average realisation rate and the expected increase in volumes due to the launch of 'Nano' in FY09E.

At the current price, the stock is trading at a P/E of 14x for FY08E and 12.3x for FY09E earnings. Based on our valuation, we continue to remain positive on the long-term growth prospects of TTMT, and reiterate our Buy rating on the stock with a revised target price of Rs. 830 for FY09E.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	195,328	237,695	324,264	356,815	422,067	14.1%
Adj. EBITDA	24,295	29,765	40,308	43,233	50,660	12.1%
Adj. Net Profit	13,246	16,756	21,017	18,544	21,118	0.2%
Margins(%)						
EBITDA	12.4%	12.5%	12.4%	12.1%	12.0%	
NPM	6.8%	7.0%	6.5%	5.2%	5.0%	
Per Share Data (Rs.)						
Adj. EPS	34.5	41.8	51.6	45.5	51.9	0.2%
PER (x)	12.0x	22.3x	12.3x	14.0x	12.3x	

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