

Company Flash

2 May 2007 | 5 pages

Tata Motors (TAMO.BO)

Buy: April Sales - Interest Rates Start to Pinch

- Growth moderates to +11% y/y** — April sales growth moderated to c+11% y/y boosted by the strong growth in LCVs (+23% y/y) and cars (+19% y/y). MHCV sales declined by c11% y/y as rising rates curtailed volume growth.
- MHCV volumes decline 11% y/y** — Domestic sales declined c14% y/y due to rising interest rates. Dealer visits have indicated that sales over 1Q are expected to remain depressed – overall for the year, marginal growth of 8-10% is expected. LCV sales have grown at a robust 23% y/y (Domestic +22% y/y, Exports +27% y/y) on the back of strong ACE volumes.
- Strong car sales, spurred by incentives** — Domestic car sales surged c22% y/y boosted by incentives. Channel checks indicate that dealer discounts on Indica are around 5-6% of on road prices (in-line with promotional offers of other leading players). This doesn't augur well for 1Q margins.
- New product launches** — New models expected to be launched this fiscal are the passenger variant of the ACE, a 49MT truck and also another product in the 30-35MT segment. The "1 lakh car" remains on track – press reports (Source: *Economic Times*) indicate that TAMO has secured significant volume discounts from key vendors for the product)
- Reiterate Buy/Low Risk** — Downside risks are rising interest rates that could pinch volumes growth, and margin pressure.

Buy/Low Risk	1L
Price (30 Apr 07)	Rs750.45
Target price	Rs1,029.00
Expected share price return	37.1%
Expected dividend yield	2.0%
Expected total return	39.1%
Market Cap	Rs287,554M
	US\$7,010M

Figure 1. Tata Motors- April Sales

	Apr-07 Nos	% chg YoY	% chg over Mar
Total Sales	40,486	10.7	-35.5
H / MCVs	11,271	-11.1	-40.9
LCVs	11,304	22.9	-29.3
Total CVs	22,575	3.2	-35.6
UVs	3,397	37.0	-45.4
Cars	14,514	18.8	-32.4
Total Passenger	17,911	21.8	-35.3

Source: Company

Jamshed Dadabhoy¹

+91-22-6631-9883
jamshed.dadabhoy@citigroup.com

Hitesh Goel¹

hitesh.goel@citigroup.com

See Appendix A-1 for Analyst Certification and important disclosures.

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Tata Motors

Company description

Tata Motors is the flagship company of the Tata Group, India's largest business conglomerate, and is among the country's largest manufacturers of automobiles with a dominant position in the commercial-vehicle business. It has a significant presence in the utility vehicle and passenger-car segments.

Investment thesis

We have a Buy / Low Risk rating on Tata Motors, with our positive view reflecting a) the impending spinning off of the auto finance business (which will release substantial funds locked into the business and positively impact TTMT's return / asset turnover ratios and b) stronger-than-expected growth in heavy trucks as the ban on overloading continues to be implemented (not as effectively as we would like, but far better than we had initially envisaged).

Key reasons for a strong growth outlook in commercial vehicles include a sustained pick-up in economic activity, a focus on infrastructure spending (expected to continue with funding in place) and a strong replacement cycle (27% of the existing fleet in India is more than 15 years old and needs to be replaced both for commercial and environmental reasons).

Tata Motors should also benefit from the launch of new products and international initiatives, given a competitive cost structure.

Valuation

Our 12-month target price of Rs1,029 is based on a sum-of-parts valuation methodology, which we believe captures the value embedded in subsidiaries and group holdings. Management has indicated its intent to unlock value, (to the benefit of Tamo's existing shareholders), for either / both HV Transmissions Ltd. and HV Axles Ltd., through an IPO or strategic sale to outside parties. We value Tata Motors' core business at Rs 827 / share, which is based on 9.2x FY08E EBITDA, at the lower end of the recent trading band, and which should be comfortably supported by a 25% CAGR in EBITDA over FY06-08E. Over the past fiscal, the EV / EBITDA multiple has ranged between 6.2-11.4x. We value the subsidiaries at Rs201 / share.

Risks

We rate Tata Motors Low Risk based on our quantitative risk rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price are movements in economic variables — particularly GDP growth, interest rates and fuel prices, to which sales of commercial and passenger vehicles are very sensitive. Competition in the passenger car business remains intense with the presence of most global majors in the Indian market. While the commercial vehicle business has been relatively less exposed to competition, the situation could change over the next three years with international companies eyeing the Indian market. Key upside risks to our target price include: a) Strategic sale/IPO of key subsidiaries; b) An indication that the Supreme Court ruling on overloading is being implemented over the longer term; and c) Reduction in input costs (notably steel).

Appendix A-1

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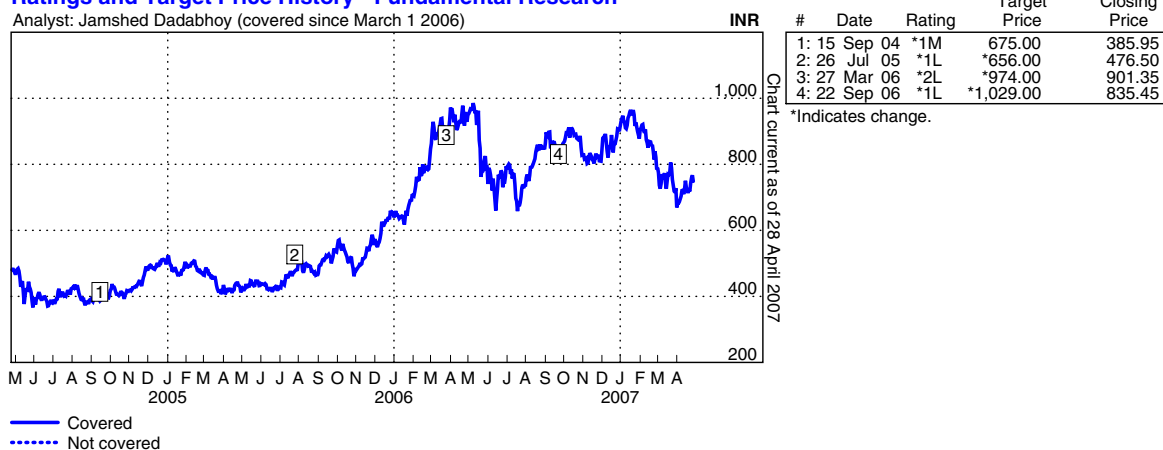
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Tata Motors (TAMO.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Jamshed Dadabhoy (covered since March 1 2006)



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