Tata Motors Ltd

The pain is not over!

SELL | **CMP: INR188** | **Target Price: INR130**

ANTIQUE

December 22, 2008 | Strictly confidential

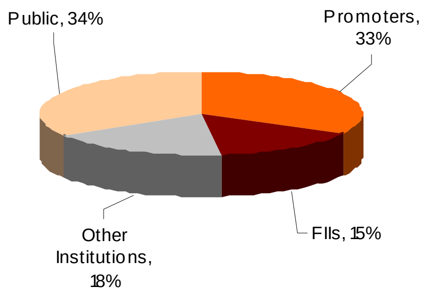
Market Data

Sector	:	Automobiles
Market Cap (INRbn)	:	97
Market Cap (USDbn)	:	2.1
O/S shares (m)	:	514
Free Float (m)		298
52-wk HI/LO (INR)	:	798/122
Avg Daily Vol ('000)	:	698
Face Value (INR)	:	10
Bloomberg	:	TTMT IN
Reuters	:	TAMBO.BO

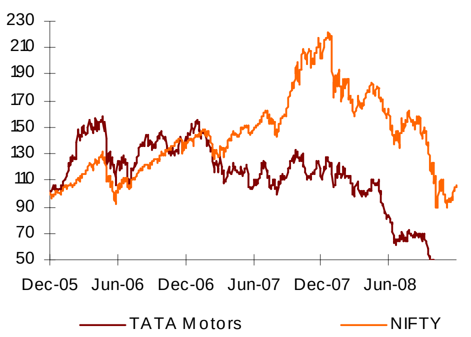
Price Performance

	1m	3m	6m	12m
Absolute	18	(59)	(68)	(77)
Relative	12	(44)	(49)	(54)

Shareholding Pattern (pre-rights)



Price Performance Vs NIFTY



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Investment Rationale

- Given the slowdown in economic activities, there has been a sharp slump in freight movement, which has led to under-utilisation of capacities with fleet owners. Additionally, downward pressures on freight rates, hike in CV prices and increased cost pressures have accentuated the pain for freight operators. This has led to a drastic fall in CV demand during the current year. With freight operators under severe pressure, there is no immediate trigger to boost CV volumes. We expect TML's CV volumes to fall by 20% during the current year.
- The passenger car segment is also facing headwinds, given the sharp fall in demand and non-availability of easy financing. (Indica - 50% of domestic PV sales; 1HFY09 volumes down 27%). UVs, too, are witnessing major pressure on volumes. Furthermore, the delay in the launch of Nano adds to the woes.
- The acquisition of JLR was probably undertaken at the worst possible time (and price). The huge fall in car demand witnessed in the US and the UK (over 65% of JLR's sales) would put severe pressure on JLR's volumes in CY09. Also, raising funds (to repay the debt taken to fund JLR acquisition) will be highly challenging, given the tight liquidity crunch and the recent downgrade of TML's credit rating by S&P to 'BB-'. This acquisition will further aggravate the pain for TML.
- Tata Motors has been hit on all fronts, be it volumes, margins or fund raising. With no immediate trigger to boost CV demand, there is no significant respite expected till 1HFY10. We feel that the pain has just begun!

Valuation:

Given the strong headwinds faced by Tata Motors on all parameters, we initiate coverage on the stock with a SELL recommendation. Our SOTP target price of INR130 implies a downside of 31% from the current levels.

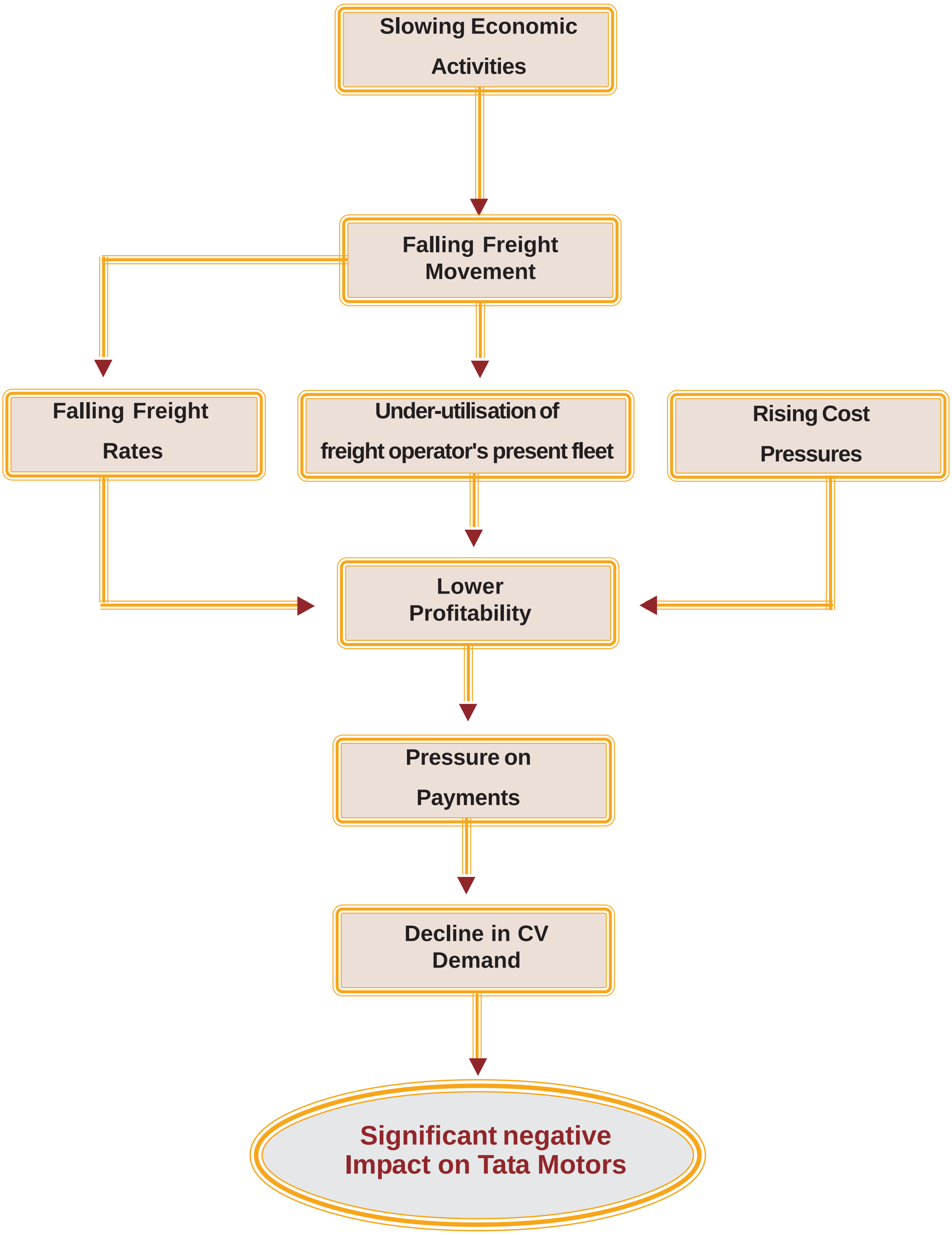
Key financials (Standalone)

Year ended March	2007a	2008a	2009e	2010e	2011e
Net Revenues (INR m)	274,700	287,308	237,008	249,115	293,577
EBITDA (INR m)	31,621	28,904	15,013	17,575	23,378
EBITDA growth (%)	26	(9)	(48)	17	33
PAT (INR m)	19,135	20,289	7,160	5,930	9,428
PAT growth (%)	26	6	(65)	(17)	59
EPS (INR/share)	49.6	52.6	13.9	11.5	18.3
EPS growth (%)	22	6	(74)	(17)	59
PE (x)	3.8	3.6	13.5	16.3	10.3
PB (x)	1.1	0.9	0.8	0.7	0.7
EV/EBITDA (x)	4.3	4.7	9.0	7.7	5.8
RoE (%)	28	26	6	5	7

Source: Antique

Investment thesis

Tata Motors caught in a vicious circle



Source: Antique

Double whammy for fleet owners = rising costs + declining revenues

The table below indicates the pressure on profitability faced by freight operators.

(Indicative operating cost structure for a freight operator)

For a Mumbai-Delhi trip, 1,500 km, 6 one-way (3 two-way) trips a month

	Dec-08	Dec-07	
Kms per trip	1,500	1,500	
No of trips	6	6	
Total km travelled	9,000	9,000	
Freight per trip	**20,000**	**22,000**	**-9%**
Total freight revenues	**120,000**	**132,000**	**-9%**
Key operating costs:			
Diesel costs:			
Mileage	4.5	4.5	
Diesel consumed (litres)	2,000	2,000	
Diesel costs/litre	33	31	6%
Total diesel costs (A)	**66,000**	**62,000**	**6%**
Other costs (driver, tyre, toll) (B)	**30,600**	**27,540**	**11%**
Total key operating costs (A + B)	**96,600**	**89,540**	**8%**
Operating profit	**23,400**	**42,460**	**-45%**

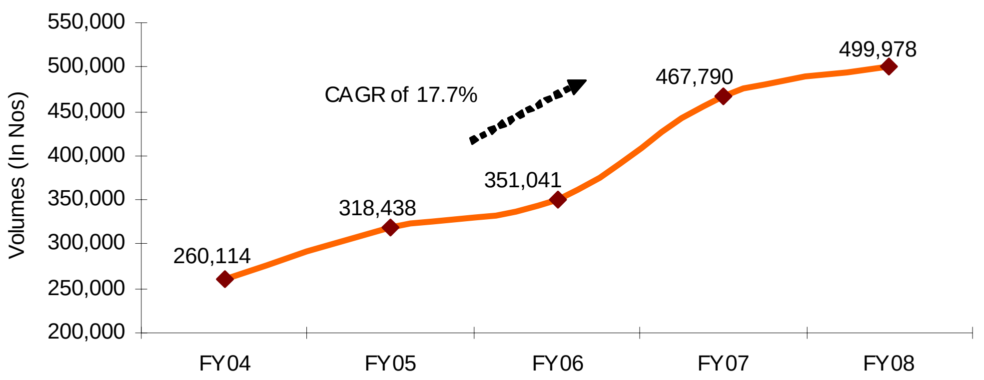
Source: Antique

Freight operators in a tight spot; impacting demand for CVs

CV industry grows at a CAGR of 17.7% (FY04-08)

The Indian commercial vehicles (CV) industry has grown at a CAGR of 17.7% during FY04-08. Buoyancy in economic activities, increased freight movement and a corresponding increase in freight rates propelled the demand for CVs.

CV industry volumes (Domestic)

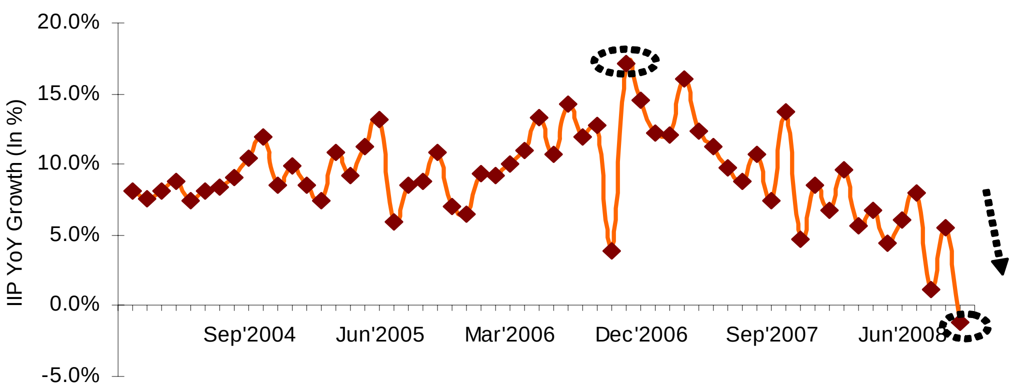


Source: SIAM, Antique

FY09 sees major deceleration... freight movement down sharply

However, FY09 has seen growth rates mellowing down significantly. Given the recent slowdown in economy, which is reflected in the declining growth in IIP numbers, there has been a reduction in freight movement across sectors.

Index of Industrial Production (IIP) - Manufacturing segment



Source: Ministry of Finance, Antique

Under-utilisation of capacities + pressure on freight rates = dents CV volumes

This has led to under utilisation of current capacities with fleet owners and resultant pressure on freight rates during the current year. Consequently, there has been a deferment of CV purchases by transporters. Furthermore, overloading has been witnessed in several pockets of India, which has resulted in a further dent to CV demand.

In fact, the situation is so grim that there have been a few instances, where the fleet owners have returned the truck to the financer, given the current scenario of slowing demand coupled with rising costs (especially rising EMIs).

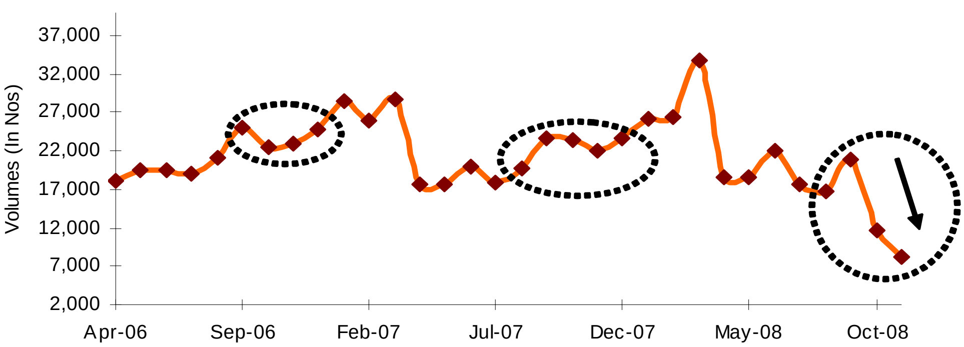
Moreover, CV prices were hiked by leading OEMs to offset the rising raw material costs during 1HFY09. On the other hand, the hiking of interest rates by banks led to the raising of EMIs for freight owners. Cumulatively, this accentuated fleet operators' pain, leading to delinquencies on loan repayments. As a result, banks have become extremely stringent in lending for CV financing, given the apprehensions on account of rising defaults. Hence, besides the drastic fall in demand for CVs, the availability of financing has also become a key challenge.

Rising inventory levels call for production cuts

This has led to a sharp fall in the demand for CVs. Production cuts resorted to by companies, due to the creeping inventory at dealer level, clearly indicate prevailing headwinds surrounding the Indian CV industry.

M&HCV volumes dive

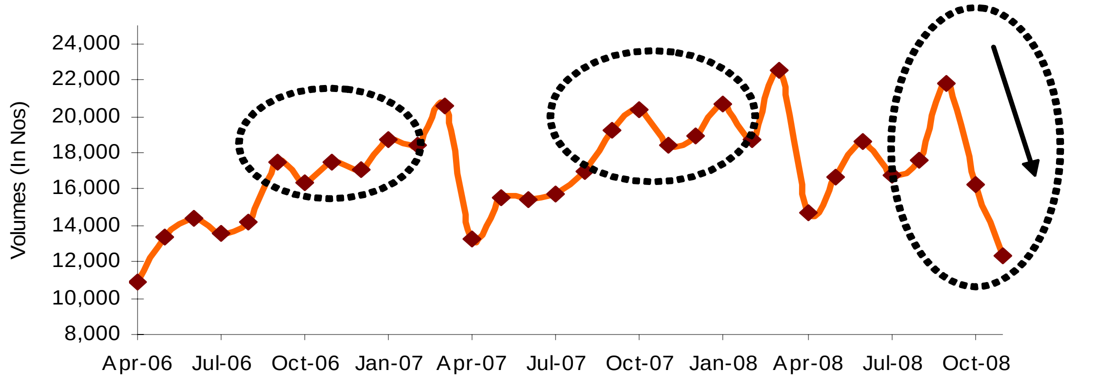
M&HCV industry domestic sales



Source: SIAM, Antique

LCVs follow suit

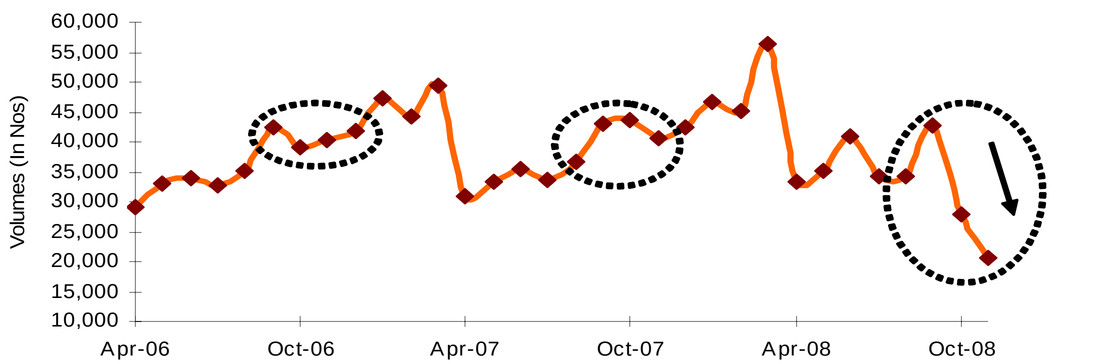
LCV industry domestic sales



Source: SIAM, Antique

Overall CV demand slips

Total CV industry domestic sales

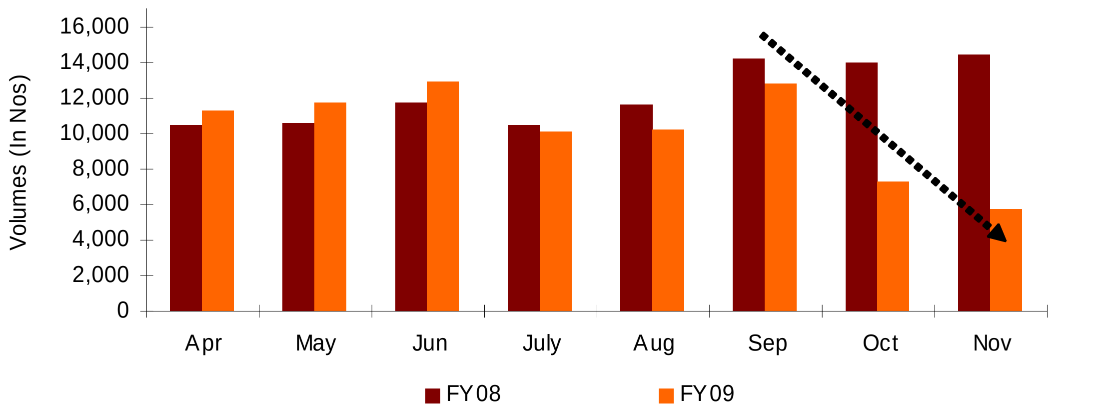


Source: SIAM, Antique

Tata Motors – the fall begins

Tata Motors Ltd (TML), the largest player in the segment, has consequently seen a drastic fall in volumes since 3QFY09. For MHCVs, post a 10% growth in domestic CV volumes in 1QFY09, there was a decline of 9% in volumes in 2QFY09. The situation has further aggravated during the current quarter, with MHCV volumes dipping by 48% and 60% in October and November 2008, respectively.

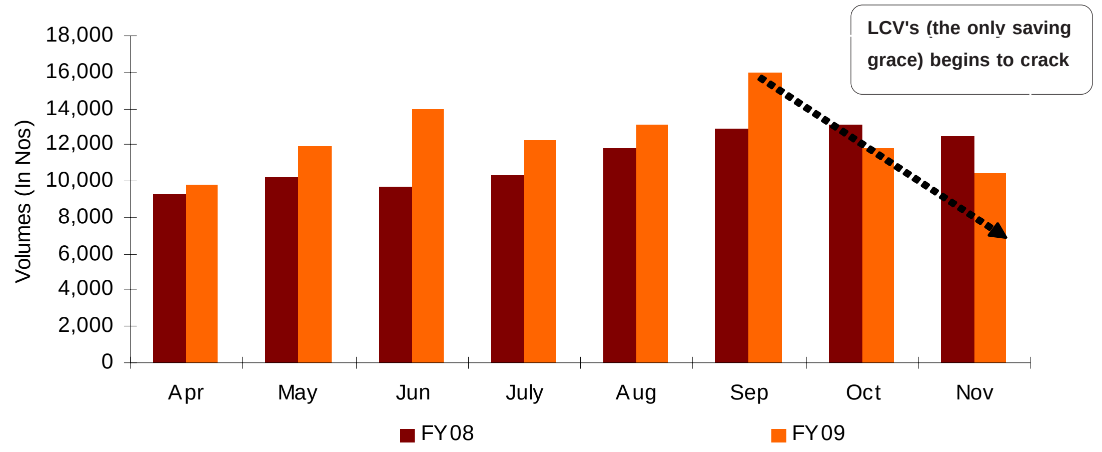
Tata Motors - M&HCV domestic volumes



Source: Company. Antique

Even for LCVs, which saw a growth of 23% and 18% in domestic volumes in 1QFY09 and 2QFY09, respectively, the segment volumes are down by 10% and 16% in October and November 2008, respectively.

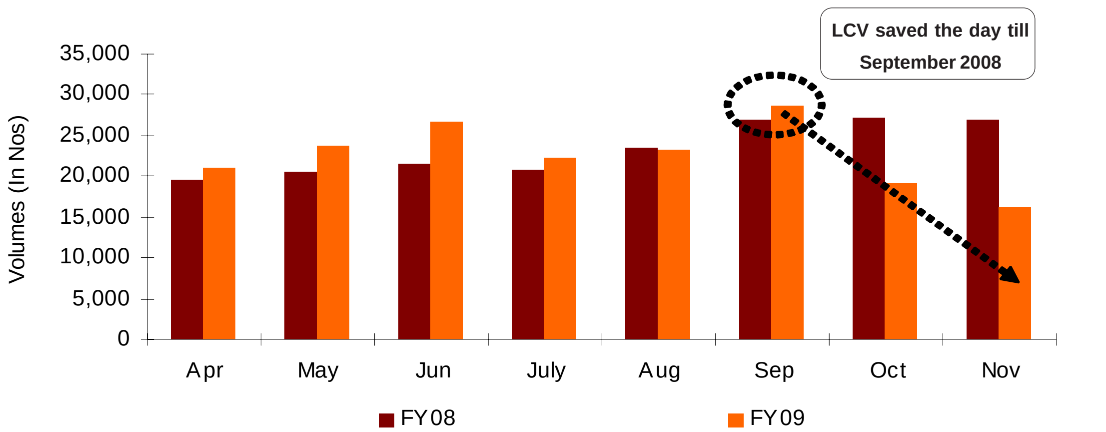
Tata Motors - LCV domestic volumes



Source: Company. Antique

After the crack in LCV volumes (the only savior), the overall CV volumes for Tata Motors has witnessed a sharp decline of 29% YoY in October 2008 and 40% YoY in November 2008.

Tata Motors - Total CV domestic volumes



Source: Company. Antique

While initiatives like a cut in diesel prices by around 5% and a 4% reduction in excise duty have been undertaken, the same translating into a revival in demand is unlikely in the near term, as the fall in demand for freight far exceeds benefits that could accrue due to above initiatives. We feel that the current slowdown would continue to adversely impact the demand for CVs till 1HCY09.

No respite for passenger vehicles

Passenger vehicles segment, too, feeling the pinch

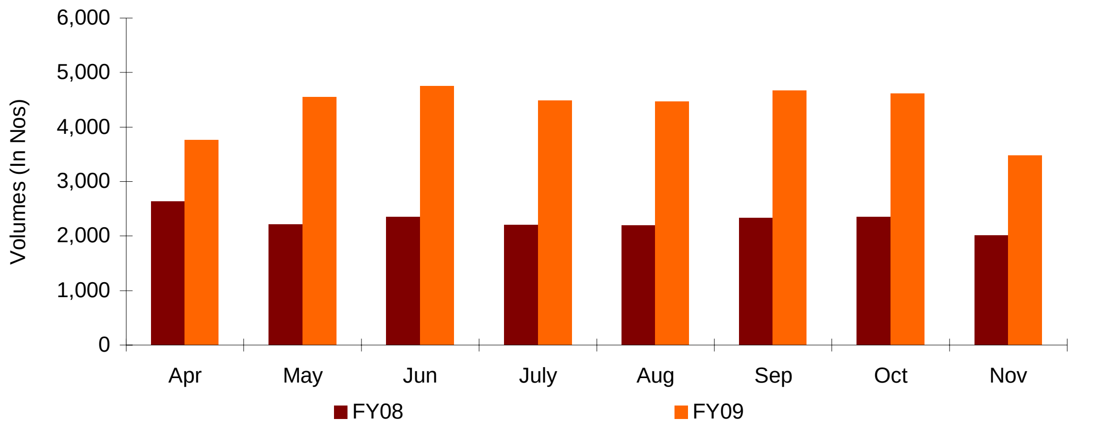
TML has an extensive range of products in CV (both goods and passenger) and PV segments. Leveraging on its huge experience in the Indian automobile industry and its in-house product development skills, the company has been able to churn out a range of highly successful products, both in CV and PV categories.

In passenger vehicles, TML is present broadly through two products: Indica (V2, V2 Turbo, V2 Xeta, V2 Dicor and Vista) and Indigo (Indigo, Indigo XL, Marina, CS). *Indica*, launched in 1998, was a huge success with sales of around 100,000 units within 25 months since its launch. The model is the second-largest in India in terms of sales volume. On the same platform, *Indigo* was launched in 2002, followed by an estate version in 2004.

In FY08, sales of both Indica and Indigo saw a decline in sales to the tune of 6% and 8%, respectively. However, during the current year, Indigo has witnessed a remarkable growth, with volumes rising 81% YoY in 1QFY09 and 102% YoY in 2QFY09, indicating a growth of 91% YoY in 1HFY09. The reason for this phenomenal growth can be attributed mainly to the launch of Indigo CS, which received an overwhelming response.

Indigo CS (compact Sedan) is India's first sub-4-metre sedan, available in both petrol and diesel variants. A key reason for the huge success of the model is that it attracts a lower excise duty of 12% as against 16% for other sedans like Logan, due to its size being shorter than four metres. This enables TML to price the model lower as against competition. Buoyed by the success, the company has launched three variants of this model in September 2008. This has provided a fillip to Indigo's volumes and enabled TML to consolidate its presence in the passenger car segment.

Tata Motors - Indigo domestic volumes



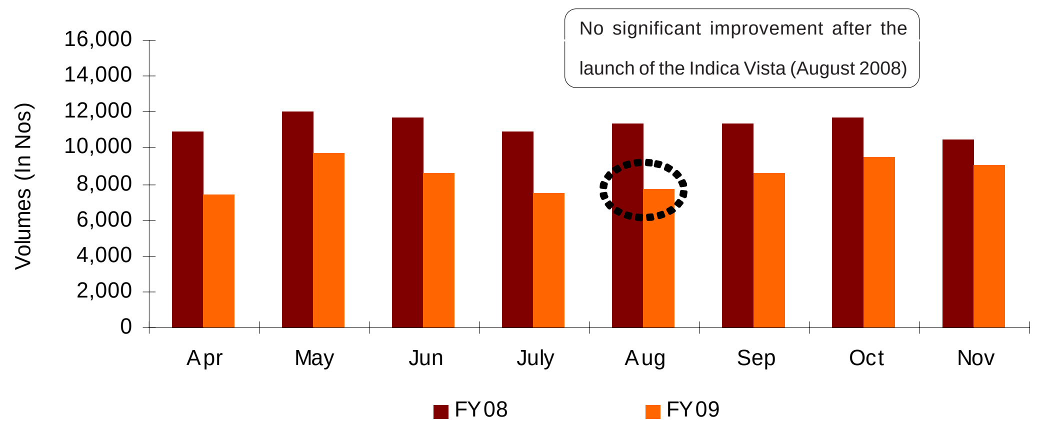
Source: Company. Antique

Indica Vista fails to revive Indica volumes

On the other hand, Indica continued to see pressure on volumes. During 1HFY09, sales of the model were down 27% YoY, due to the delay in the launch of new Indica christened Indica Vista. However, the model was launched in August 2008, and the response has been positive, given the waiting period of 4-6 weeks. The new Indica scores over the previous version on parameters of styling and interior space. Both models co-exist, enabling TML to extend its presence across a wider price range from INR260,000 to INR488,000.

Despite the positive response, TML has not been able to significantly revive volumes of Indica. After a 27% de-growth in 1HFY09, volumes continue to be under pressure, falling by 19% and 14% YoY in October and November 2008, respectively.

Tata Motors - Indica domestic volumes



Source: Company. Antique

Due to the demand slowdown, the passenger car segment has also been adversely impacted in line with other auto segments. Also, the availability of financing remains a key issue, given the exit of private banks and relatively high interest rates. Additionally, competitive pressures and the rising inventory at dealer levels defy a significant growth in sales revival during the current year. These factors would exert further pressure on TML's passenger car volumes.

Delay in Nano launch could further defer growth in volumes

Nano delayed

Besides Indica and Indigo, TML has enlarged its product mix by developing **Nano**, the cheapest car available globally. With the base model priced at INR100,000, Nano will alter the dynamics of the Indian passenger car industry by reducing the entry-level price of a new car. Currently, Maruti 800 is the cheapest car in India, priced at about INR200,000. Thus, there exists a huge price differential between Nano and the latter model, which augurs in favour of Nano.

The Nano, which was displayed at the Auto Expo during the earlier part of CY2008, was originally slated to be manufactured from Singur in West Bengal. However, due to political conflicts, the project has now been shifted to Sanand in Gujarat. As this has disrupted the production schedule, dispatches have also been adversely impacted. As against the earlier schedule of its launch in October 2008, the car would now be rolled out in 4QCY09 from the Gujarat facility.

The plant's initial capacity would be 250,000 units per annum, which would be scaled up to 500,000 units per annum gradually. Till the plant in Gujarat becomes operational, the product would be rolled out from existing plants at Pune and Uttarakhand from January 2009. However, given the production constraints, volumes would be insignificant, which would work out to TML's disadvantage, especially given the huge demand anticipated for the model.

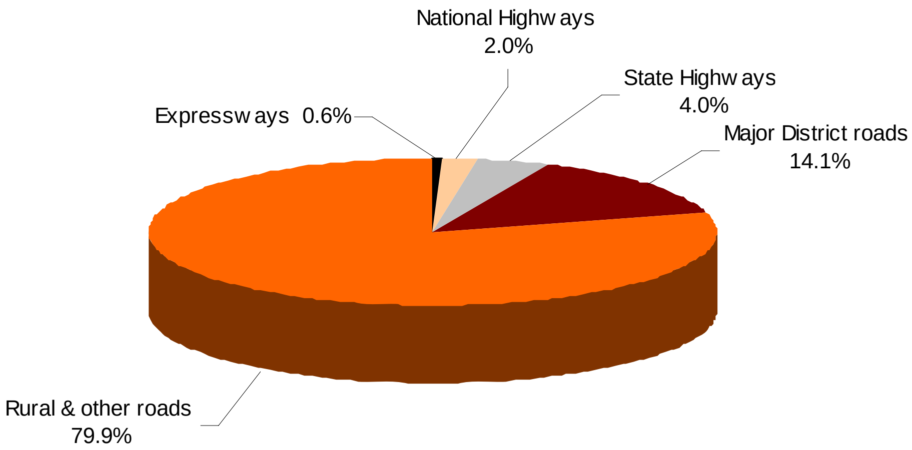
Demand for utility vehicles, too, slides

Besides other segments, even the utility vehicles (UV) segment has seen a slippage in volumes during the current year. After a flat growth in volumes in FY08, volumes rose by 23% in 1QFY09, buoyed by the success of Sumo Grande. However, volumes slipped by 4% in 2QFY09, largely led by a 21% YoY decline in volumes in July 2008. Besides the hike in fuel prices in June 2008, the imposition of additional excise duties on UVs adversely impacted volumes for the month. The outlook for the segment has further deteriorated during the current quarter (3QFY09), with a drop of 27% and 53% in volumes in October and November 2008, respectively.

Delay in road development projects to further defer demand for CVs

The Indian road network of 33 lakh km is the second-largest network in the world, comprising expressways, national highways, state highways, major district roads, and rural and other roads.

Road network



(Source: NHAI)

Since national highways constitute only about 2% of the road network, but carry almost 40% of the total road traffic, development of national highways becomes highly imperative. In line with this, the Government of India (GOI) has launched major initiatives to upgrade and strengthen national highways through various phases of National Highway Development Programme (NHDP).

NHDP and other NHAI projects

(In Kms)	GQ	NSEW I & II	NHDP IV	NHDP V	NHDP Total	Ports	Others	Total NHAI
Total length	5,846	7,300	12,109	6,500	31,755	380	962	33,097
Already four-laned	5,701	2,965	584	38	9,288	203	726	10,217
Under implementation	145	3,356	1,491	992	5,984	171	216	6,317
Balance	**-**	**821**	**10,034**	**5,470**	**16,325**	**6**	**20**	**16,351**

As on November 30, 2008

Source: NHAI

The table above indicates various projects undertaken for development of roads. Of the above projects, while the GQ project (5,846 km) is almost complete (97%), other projects are under various phases of development. The emphasis on developing the highways across the country would induce higher transportation of goods through roads. Already, road transport scores over railways, due to easy accessibility, flexibility of operations, door-to-door services, etc.

Road development projects delayed

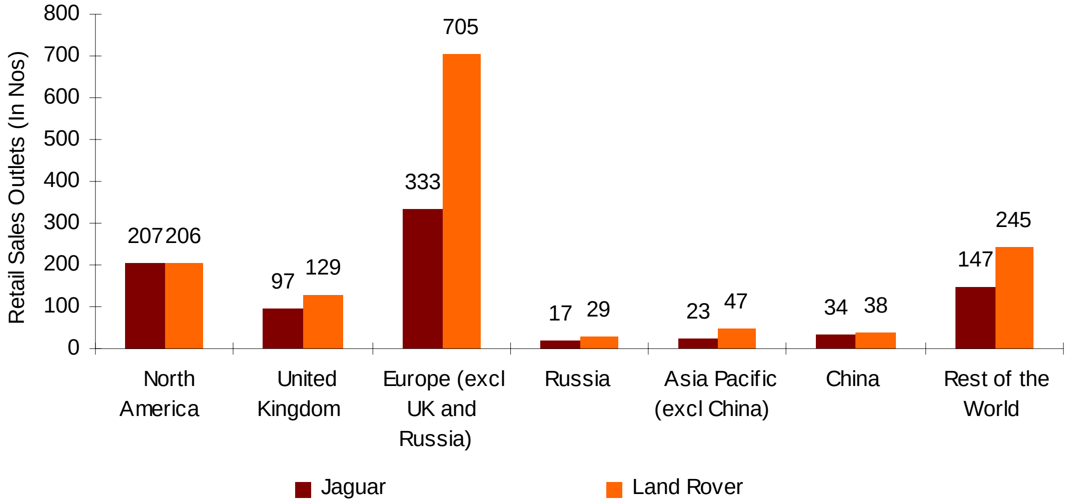
However, going forward, with the delay in the progress on highway development, the demand for CVs would also be deferred. NHAI authorities have deferred the bidding for 23 mega road projects worth INR300bn under the phase III of NHDP, as it did not receive a single bid for any of the projects. With private players reluctant to bid for the projects, given the current bleak economic scenario, the bidding date has been deferred by almost 2 weeks for almost all projects.

JLR acquisition at the worst possible time

Acquisition of JLR further aggravates the pain

On June 2, 2008, TML completed the acquisition of Jaguar Land Rover (JLR) from Ford. As part of the acquisition, the company acquired the global businesses relating to JLR, including three vehicle manufacturing facilities, two advanced design centres, 26 national sales companies, intellectual property rights (including perpetual royalty free licences), and brands and trade marks. JLR's manufacturing facilities are located at Halewood, Solihull and Castle Bromwich in the UK. Jaguar accounts for 80% of volumes, while Land Rover volumes contribute the rest.

JLR - Retail sales locations



Source: Company

North America: US, Canada, Mexico
Europe: Ireland, Norway, Portugal, Sweden and rest of Europe, France, Austria, Belgium, Germany, Netherlands, Italy, Spain, *Switzerland*
Asia Pacific (excluding China): Taiwan, South Korea, Thailand, Singapore, Rest of Asia (excluding Japan)
Rest of the World: Japan, Australia, Brazil, Rest of Americas, South Africa, Middle East and North Africa, Sub Saharan Africa, *New Zealand*

Geographical volume spread

CY07 volumes	Jaguar	Land Rover
North America	13,994	56,069
UK	17,802	49,129
Europe (excl UK & Russia)	14,824	74,557
Russia	1,135	12,626
Asia-Pacific (excl China)	1,065	2,467
China	823	9,023
Rest of World	6,247	28,783
Total	**55,890**	**23,2654**

Source: Company

While the acquisition will help TML to make a foray into the premium and luxury vehicle segment and extend its global market reach, JLR would be able to leverage TML's low-cost engineering and sourcing capabilities, leading to benefits in terms of cost savings. TML has indicated that JLR's outsourcing from low-cost destinations is currently at around 30%, which could be increased to 40% enabling savings in costs.

Besides the above synergies, other issues pertaining to integration aspects, provisions and supply chain have been clarified by TML.

Assured long-term supplies of parts and services:

Ford has been and would continue to be a major supplier of parts and services to JLR. After the acquisition of JLR by TML, supply agreements have been entered into with Ford, ranging from the duration of 7-9 years for: a) the long-term supply of engines by Ford, and b) engines developed by Jaguar Land Rover, but manufactured at Ford plants.

Deficit for pension plans provided only till Oct 2007:

JLR provides pension benefits substantially for all its employees in the UK under three defined benefit plans. A formal valuation of liabilities is ascertained every 3 years. The UK Pension Plans were valued in 2006, following which Jaguar Land Rover and trustees to the pension plans agreed on contributions to eliminate deficits in these plans by 2015. Estimated deficits, as on October 2007, amounting to USD600m, have been already provided for.

Availability of credit to continue with Fiat Group Automobile Services:

Prior to the acquisition of Jaguar Land Rover in June 2008, Ford Motor Credit Company provided automotive financial services to a number of dealers and customers of JLR. Under agreements with Ford, JLR's dealers and customers will continue to have access to Ford Motor Credit Company's financing facilities for a period of up to 12 months in various markets following the acquisition, while Jaguar Land Rover shifts to alternative arrangements. Recently, JLR has announced the selection of Fiat Group Automobiles Financial Services to be its exclusive partner for its European markets. It is also in advanced stages of selecting a strategic financial services partner for the North American market. Moreover, in other markets too, JLR is evaluating alternative options with potential partners.

Turnaround in JLR performance:

Following a strategic review undertaken in 2002-03, JLR began a restructuring programme with a focus on cost reduction and improving operational efficiencies in production processes. The measures included closure and sale of select operations, reduction in head count, increased usage of common platforms and power trains to reduce fixed costs, vendor rationalisation, etc. The results seemed to have yielded positive results as evident from its financial performance. Between CY05 and CY07, revenues increased from USD12.4bn to USD14.9bn, while the EBIT rose to USD650m as against a loss of USD499m in CY05.

JLR financials

USD m	CY07	CY06	CY05
Revenues	14,942	12,969	12,462
EBIT*	650	(357)	(499)

**Before extraordinary adjustments*

Source: Company

JLR funding plans:

TML's deal to buy JLR from Ford Motors for USD2.3bn is an all-cash deal. The initial cost has been met through a bridge finance loan extended by a syndicate of banks to JLR and guaranteed by TML.

Rights issue dilutes the equity by a staggering 33%

As per the plan, TML has raised INR41.47bn through two rights issues:

- Ordinary shares on a rights basis in the ratio of 1 share held for 6 shares held. These shares would be issued at INR340 per share (premium INR330), aggregating to INR21.86bn.
- "A" ordinary shares on rights basis in the ratio of 1 share held for 6 shares held. These shares would be issued at INR305 per share (premium INR295), aggregating to INR19.61bn.
- "A" ordinary shares would have differential rights with regards to voting and dividend. Here, the shareholder would be entitled to one vote for every 10 "A" ordinary shares held. Also, he will be entitled to receive 5% higher dividend.

Post the subscription of the rights issue, TML's equity dilution has been to the tune of 33%.

Tata Motors - Equity structure

Equity Structure	No of shares (mn)
Pre-rights equity	385.9
Rights (ordinary shares) 1:6	64.2
Rights "A" ordinary shares	64.2
Total	514.3
FCCN's outstanding*	42.3
Total equity	**556.6**

**Since the FCCNs are to be converted by 2011-12, we have not factored in any equity dilution on account of the same.*

Source: Company, Antique

Besides USD2.3bn, TML has also raised a debt of USD700m to finance the working capital for JLR. Overall, for the total debt of USD3bn (INR120bn), funds required would be made available through the rights issue (INR41.5bn), stake sale in group companies and subsidiaries (INR3bn), and the rest through debt and other sources.

Auto industry in the US and the UK facing strong headwinds

Given the drastic fall in demand for cars globally, JLR, too, is facing pressure on volumes. Dwindling auto sales in the US and the UK, the key markets for JLR, will make it immensely difficult to achieve growth in volumes.With recessionary conditions spreading from the US to the UK and other countries, JLR would continue to witness huge pressure on its volumes and, consequently, on its revenues.

JLR - Volumes

Volumes (In Nos)	9MCY08	9MCY07	% Chg
Jaguar	53,239	47,033	13.2
Land Rover	153,431	163,156	(6.0)
Total	**206,670**	**210,189**	(1.7)

Source: Company

On account of the sharp fall in global equity markets for the past 6 months, the deficit for the pension plans to be ascertained in April 2009 could be huge, entailing high provisioning requirements in CY09. In addition to current headwinds faced, this would further accentuate the pain for JLR.

Fund raising highly challenging

For TML, which has raised around INR47bn (rights issue and stake sale in FY09 YTD), of the total requirement of INR120bn, raising further funds would be extremely challenging, given the current liquidity crunch and prevailing high interest rates. Moreover, with leading rating agencies lowering their ratings on TML, it would make things tougher for the company. Recently, in December 2008, S&P has lowered its corporate credit rating on TML to BB- from BB, and placed it on credit watch with negative implications, citing faster-than-expected deterioration in automobile market conditions. Also, even if TML is able to raise funds (debt), high interest rates would exert huge pressure on profitability, given that TML's margins in its core business are under severe stress.

Company profile

Established in 1945, Tata Motors Ltd (TML) is the largest automobile company in India. It is the largest commercial vehicle (CV) manufacturer and the third-largest player in passenger vehicles (PV) in the country. In the PV segment, the company is present in both cars and utility vehicle (UV) segments.

Medium and heavy commercial vehicles: Medium and heavy commercial vehicles (M&HCVs) include trucks, buses, dumpers and multi-axle vehicles, with gross vehicle weight (GVW) between 9 tonnes to 49 tonnes. In addition, through Tata Daewoo Commercial Vehicle Company Ltd (TDCV), a wholly-owned subsidiary in South Korea, it manufactures a range of high horsepower (hp) trucks, ranging from 220 hp to 400 hp, including dump trucks, tractor-trailers, mixers and cargo vehicles.

Light commercial vehicles: Light commercial vehicles (LCV) include trucks, pickup trucks and buses, with a GVW of between 0.7 tonne and 7.5 tonnes. The product mix includes the ***Ace*** — India's first indigenously developed mini-truck with a 0.7 ton payload, launched in fiscal 2006, ***Magic***, the passenger variant for commercial transportation developed on the Ace platform and the ***Winger***, which were launched in fiscal 2008.

Utility vehicles: Products in UV include the ***Sumo***, first launched in 1994, and the ***Safari*** launched in 1998. Both the Sumo and the Safari have seen several upgradations to meet different consumer preferences. ***Sumo Grande,*** for instance, has received encouraging response since its launch.

Passenger cars: TML's offerings in the passenger car category include the **Indica**, a compact car, first launched in 1998, the **Indigo**, a mid-sized car launched in 2002, and the **Indigo Marina**, a station-wagon version of the Indigo launched in 2004. These passenger cars are manufactured in both petrol and diesel engine versions. The range has been enlarged to include Xeta (Indica variant) and Indica Vista, the latest offering launched in August 2008.

The company operates through its manufacturing facilities located at Jamshedpur, Pune (Pimpri and Chinchwad), Lucknow and Uttarakhand.

Plant-wise Product Mix

Plant location	Products manufactured
Pune (Pimpri)	MHCV, LCV, UV and cars
Pune (Chinchwad)	
Jamshedpur	MHCV
Lucknow	MHCV, LCV
Uttarakhand	LCV

Source: Company

The company's strong focus on R&D helped to introduce Indica (1998), manufactured indigenously by TML, and also the upcoming Nano. It has design centres at three locations in India (Pune, Jamshedpur and Lucknow), and three abroad in Spain, South Korea and the UK. Additionally, it has also acquired two new centres in the UK through the JLR acquisition.

TML's sales and distribution network in India is comprise over 1,500 sales outlets for passenger and commercial vehicles business. Besides India, the company has been also increasing its footprints in overseas markets through mergers and acquisitions. In 2004, it acquired a 100% stake in **South Korea**'s TDCV. In 2005, it acquired a 21% stake in Hispano Carrocera S.A, a **Spanish** bus and coach manufacturer. It has also established subsidiaries with Marcopolo S.A., **Brazil** and Thonburi Automotive Assembly Plant Company Ltd, **Thailand.** It has also entered into a joint venture arrangement with Fiat S.p.A, **Italy**.

The company's 100% stake in **TDCV** (erstwhile Daewoo Commercial Vehicle) has enabled TML to expand its commercial vehicle offering, and provided access to new markets and key inputs in the development of new World Truck platform. Similarly, the acquisition of a 21% stake in **Hispano Carrocera** has provided it access to the high-end bus and coach-building technology. The merger of **Tata Finance Ltd** (TFL) has enabled strengthening of the vehicle financing business, while the joint venture arrangement with **Fiat** S.p.A, for passenger cars has provided with access to engine and powertrain technology, besides supplementing the production capacity. TML's subsidiary, **Tata Marcopolo Motors Ltd**, incorporated along with Marcopolo, manufactures and assembles fully-built buses and coaches in India, would help to develop capabilities in these areas.

Subsidiaries:

Tata Daewoo Commercial Vehicle Company Ltd (TDCV), Korea, a 100% subsidiary of TML, is the second-largest manufacturer of heavy and medium commercial vehicles in Korea. TDCV has a market share of 32.3% in the heavy commercial vehicle segment and 34.8% in the medium commercial vehicle segment. Also, it is the largest exporter from Korea in this segment.

Telco Construction Equipment Company Ltd (Telcon), wherein the company has a 60% holding, with the remaining balance of 40% held by Hitachi Construction Machinery Company Ltd, Japan, is engaged in the manufacture of construction equipment and allied services. In April 2008, Telcon acquired two Spanish companies, namely, Serviplem S.A and Comoplesa Lebrero S.A by acquiring 79% and 60% shares of the respective companies. The acquisition provides Telcon the opportunity to play in two important growth economies – India and China. The acquisition of Comoplesa Lebrero S.A will give Telcon access to compaction equipment technology.

Tata Technologies Ltd (TTL), in which the company has an 81.56% holding, provides through its operating companies, INCAT and Tata Technologies iKS, specialised engineering and design services (E&D), product lifecycle management (PLM) and product-centric IT services to global manufacturers of automotive, aerospace and consumer durable manufacturers.

HV Transmissions Ltd (HVTL) and HV Axles Ltd (HVAL) are engaged in the business of manufacture of gear-boxes and axles for M&HCVs, with production facilities and infrastructure based at Jamshedpur.

Tata Motors Finance Ltd (TMFL) is a wholly-owned subsidiary of the company, registered with the RBI as an NBFC. It is engaged in the business of financing CVs and PVs.

Tata Motors (Thailand) Ltd (TMTL) is a subsidiary, where TML holds a 70% stake, while the balance is held with Thonburi Automotive Assembly Plant Company Ltd. TMTL is primarily engaged in manufacture, assembly and marketing pickup trucks. TMTL enables the company to address the ASEAN and Thailand markets, the latter being the second-largest pickup market in the world after the US in 2006.

Tata Marcopolo Motors Ltd (TMML) is engaged in the business of manufacture and sale of fully-built buses and coaches, wherein the company has a 51% holding, with the remaining balance of 49% held by Marcopolo S.A., Brazil.

Subsidiary turnover (INR m)	FY04	FY05	FY06	FY07	FY08
Telcon	6,341	9,263	13,050	18,277	25,953
Tata Daewoo	10,519	11,780	15,849	23,336	31,504
HV Axles	1,194	1,440	1,439	1,967	1,908
HV Transmission	1,067	1,266	1,276	1,756	1,896
Tata Technologies	1,366	1,804	5,450	9,605	11,046

Source: Company

Subsidiary PAT (INR m)	FY04	FY05	FY06	FY07	FY08
Telcon	207	408	868	1,839	3,114
Tata Daewoo	-	225	583	830	1,827
HV Axles	297	427	463	579	477
HV Transmission	173	270	301	450	417
Tata Technologies	80	77	116	163	221

Source: Company

Things, however, have taken a turn for the worse, with 2QFY09 profits down significantly, impacting the overall 1HFY09 profits.

Subsidiary turnover (INR m)

	2QFY09	2QFY08	Var %	1HFY09	1HFY08	Var %
Telcon	7,643	6,960	9.8	14,128	12,330	14.6
Tata Daewoo	7,825	6,989	12.0	15,920	13,851	14.9
HV Axles	417	435	(4.1)	948	837	13.3
HV Transmission	384	422	(9.0)	869	817	6.4
Tata Technologies	3,239	2,595	24.8	6,087	5,256	15.8
Tata Motors Finance	1,998	2,368	(15.6)	4,044	4,007	0.9

Source: Company

Subsidiary PAT (INR m)

	2QFY09	2QFY08	Var %	1HFY09	1HFY08	Var %
Telcon	418	814	(48.6)	1,096	1,474	(25.6)
Tata Daewoo	223	410	(45.6)	679	699	(2.9)
HV Axles	42	126	(66.7)	169	224	(24.6)
HV Transmission	38	96	(60.4)	147	170	(13.8)
Tata Technologies	154	77	100.0	253	110	131.1
Tata Motors Finance	(125)	350		(211)	454	

Source: Company

About the industry

The Indian auto industry is one of the largest industrial sectors in India, with a turnover contributing to roughly 5% of the country's GDP. The Indian automobile industry contributes nearly 17% to total indirect taxes, besides providing direct and indirect employment to over 13 million people. Car penetration in India is low with only seven cars per 1,000 people.

Classification of vehicles in India

The classification vehicles in India with four or more wheels are as follows:

- **Heavy commercial vehicles:** Heavy commercial vehicles or HCVs are generally classified as those vehicles, which have a GVW of above 16.2 metric tonnes.
- **Medium commercial vehicles:** Medium commercial vehicles or MCVs are generally classified as those vehicles, which a GVW between 7.5 and 16.2 metric tonnes.
- **Light commercial vehicles:** Light commercial vehicles or LCVs are generally classified as those vehicles, which have a GVW of up to 7.5 metric tonnes.
- **Passenger cars:** Passenger Cars are vehicles, which have a seating capacity of up to six persons, excluding the driver. In line with agreed categories of sub-classification, passenger cars are further classified into the following segments:

  – **Mini cars** have a length of up to 3,400 mm. This entry-level segment constituted 5.8% of the domestic passenger car market in 2007-08 by volume.

  – **Compact cars** have a length of between 3,401 mm and 4,000 mm. This segment constituted 71.4% of the domestic passenger car market in 2007-08 by volume.

  – **Midsize cars** have a length of between 4,001 mm and 4,500 mm. This segment constituted 18.5% of the domestic passenger car market in 2007-08 by volume.

  – **Executive cars** have a length of between 4,501 mm and 4,700 mm. This segment constituted 3.5% of the domestic passenger car market in 2007-08.

  – **Premium cars and luxury cars** have a length of between 4,701 mm and 5,000 mm, and 5,001 mm and above, respectively. These segments constituted 0.8% of the domestic passenger car market in 2007-08.

- **Utility vehicles:** Utility vehicles or UVs have a seating capacity of 7-12 persons, excluding the driver.
- **Multi-purpose vehicles:** Multi-purpose vehicles or MPVs are van-type vehicles, which have a seating capacity of 7-12 persons, excluding the driver.

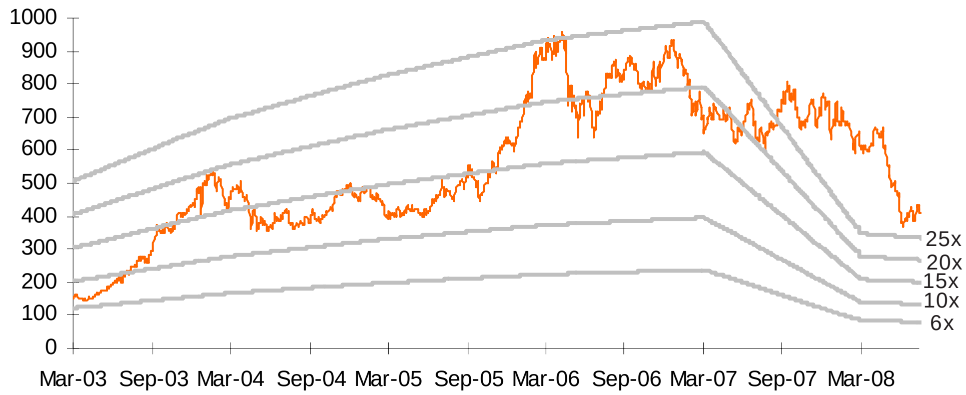
Risks to our call

A sharp cut in fuel prices in addition to the one announced recently and reduction in interest rates could revive the demand for PVs. Furthermore, the resurgence in freight demand could trigger the demand for CVs.

Revival in demand for cars, especially in markets like the US and the UK, could propel JLR volumes.

The recent softening of metal prices (especially steel) could provide reprieve to operating margins.

PE band



Source: Bloomberg, Antique

Valuation

Sum-of-the-parts valuation table

		Methodology	Value (INRm)	Value per Share
Tata Motors (Standalone)	**A**	12x FY10e EPS	53,162	103
Subsidiaries:	Stake			
Telco Construction & Equipment	60%	7.0x FY10e EPS	6,151	12
Tata Daewoo	100%	7.0x FY10e EPS	6,030	12
HV Axles	85%	7.0x FY10e EPS	1,173	2
HV Transmissions	85%	7.0x FY10e EPS	1,030	2
Tata Motors Finance	100%	0.5x FY08 Book	6,038	12
Tata Technologies	82%	7.0x FY10e EPS	3,045	6
Total value of subsidiaries (pro-rated)			**23,468**	**46**
Value after holding company discount (@25%)	**B**		**17,601**	**34**
Value of listed investments	**C**	**Market Value**	**3,835**	**8**
(Tata Steel, Auto Corp of Goa)		(less 25% holding discount)		
TML Holdings PTE Ltd (owning 100% of JLR)	**D**	**3x CY09e EV/EBIDTA**	**(7,726)**	**(15)**
SOTP Value of Tata Motors	**A + B + C + D**		**66,871**	**130**

Source: Antique

Given the strong headwinds faced by Tata Motors on all parameters, we initiate coverage on the stock with a SELL recommendation. Our SOTP target price of INR130 implies a downside of 31% from the current levels.

Standalone Financials (INR m)

Profit and Loss Account

Year ended 31st March	2007	2008	2009e	2010e	2011e
Revenues	274,700	287,308	237,008	249,115	293,577
Expenses	243,079	258,405	221,995	231,540	270,198
EBITDA	31,621	28,904	15,013	17,575	23,378
Depreciation & amortisation	5,863	6,523	7,771	8,503	9,478
EBIT	25,758	22,381	7,242	9,073	13,901
Interest expense	3,131	2,824	5,574	7,861	8,361
Other income	2,452	4,832	10,798	5,377	5,551
Forex (loss) / gains	652	1,376	(4,849)	-	-
Profit before tax	25,732	25,765	7,617	6,589	11,091
Taxes incl deferred taxation	6,597	5,476	457	659	1,664
Profit after tax	19,135	20,289	7,160	5,930	9,428
Adjusted profit after tax	18,482	17,526	6,122	5,930	9,428
EPS (INR)	49.6	52.6	13.9	11.5	18.3

Balance Sheet

Year ended 31st March	2007	2008	2009e	2010e	2011e
Share Capital	3,854	3,855	5,143	5,143	5,143
Reserves & Surplus	64,843	74,540	119,784	124,024	130,765
Networth	68,698	78,395	124,927	129,167	135,908
Debt	40,091	62,805	85,670	89,670	93,670
Capital Employed	108,789	141,200	210,597	218,837	229,577
Gross Fixed Assets	87,758	108,308	123,308	138,308	153,308
Accumulated Depreciation	48,945	54,435	62,206	70,709	80,187
Capital work in progress	25,133	50,650	60,650	70,650	80,650
Net Assets	63,946	104,523	121,751	138,249	153,771
Investments	24,770	49,103	47,103	47,103	47,103
Current Assets, Loans & Advances					
Inventory	25,010	24,218	38,960	37,538	40,216
Debtors	7,822	11,307	12,987	13,650	14,478
Cash & Bank balance	8,268	23,973	54,393	48,426	47,127
Loans & advances and others	64,022	44,339	50,990	58,639	67,436
Current Liabilities & Provisions					
Liabilities	63,637	86,672	84,902	92,957	107,526
Provisions	13,643	19,894	20,889	21,933	23,030
Net Current Assets	27,841	(2,729)	51,540	43,363	38,700
Deferred tax (assets)/liabilities	7,868	9,757	9,833	9,899	10,010
Misc.Expenses	101	61	36	22	13
Application of Funds	108,789	141,200	210,597	218,837	229,577

Per share data

Year ended 31st March	2007	2008	2009e	2010e	2011e
No. of shares (m)	385.4	385.5	514.3	514.3	514.3
BVPS (INR)	178.2	203.3	242.9	251.2	264.3
CEPS (INR)	64.9	69.5	29.0	28.1	36.8
DPS (INR)	15.0	15.0	3.5	2.9	4.6

Margins (%)

Year ended 31st March	2007	2008	2009e	2010e	2011e
EBITDA	11.5	10.1	6.3	7.1	8.0
EBIT	9.4	7.8	3.1	3.6	4.7
PAT	6.7	6.1	2.6	2.4	3.2

Source: Antique

Key Assumptions

Year ended 31st March	2007	2008	2009e	2010e	2011e
CV Volumes	334,145	352,834	281,576	267,497	294,247
PV Volumes (excl Nano)	244,717	229,567	199,794	203,073	224,485
Nano Volumes	-	-	15,000	85,000	170,000
Total PV Volumes	244,717	229,567	214,794	288,073	394,485
Total Volumes	578,862	582,401	496,369	555,570	688,731
CV Volumes Growth	36%	6%	-20%	-5%	10%
PV Volumes Growth (excl Nano)	17%	-6%	-13%	2%	11%
PV Volumes Growth (incl Nano)	17%	-6%	-6%	34%	37%
Total Volumes Growth	27%	1%	-15%	12%	24%

Cash Flow Statement

Year ended 31st March	2007	2008	2009e	2010e	2011e
EBIT	25,758	22,381	7,242	9,073	13,901
Depreciation & amortisation	5,863	6,523	7,771	8,503	9,478
Interest expense	3,131	2,824	5,574	7,861	8,361
(Inc)/Dec in working capital	5,308	(46,275)	23,848	(2,210)	(3,363)
Tax paid	4,825	1,460	381	593	1,553
CF from operating activities	18,358	70,894	(14,789)	11,331	16,827
Capital expenditure	23,664	46,067	25,000	25,000	25,000
Inc/(Dec) in investments	4,619	24,333	(2,000)	-	-
Income from investments	2,452	4,832	10,798	5,377	5,551
CF from investing activities	(25,830)	(65,568)	(12,202)	(19,623)	(19,449)
Inc/(Dec) in share capital	25	1	1,288	-	-
Inc/(Dec) in debt	10,723	22,714	22,865	4,000	4,000
Others		(10,593)	38,084	(1,690)	(2,687)
CFfrom financing activities	10,748	12,122	62,237	2,310	1,313
Net cash flow	(2,927)	15,706	30,420	(5,967)	(1,299)
Opening balance	11,194	8,268	23,973	54,393	48,426
Closing balance	8,268	23,973	54,393	48,426	47,127

Growth Indicators

Year ended 31st March	2007	2008	2009e	2010e	2011e
Revenue	33%	5%	-18%	5%	18%
EBITDA	26%	-9%	-48%	17%	33%
PAT	26%	6%	-65%	-17%	59%
EPS	22%	6%	-74%	-17%	59%

Valuation (x)

Year ended 31st March	2007	2008	2009e	2010e	2011e
PE	3.8	3.6	13.5	16.3	10.3
P/BV	1.1	0.9	0.8	0.7	0.7
EV/EBITDA	4.3	4.7	9.0	7.7	5.8
EV/Sales	0.5	0.5	0.6	0.5	0.5
Dividend Yield (%)	8.0	8.0	1.9	1.5	2.4

Financial Ratios

Year ended 31st March	2007	2008	2009e	2010e	2011e
RoE	28%	26%	6%	5%	7%
RoCE	18%	13%	4%	4%	5%
Debt/Equity (x)	0.6	0.8	0.7	0.7	0.7
EBIT/Interest (x)	8.2	7.9	1.3	1.2	1.7

Equity Sales		
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Mr. Manish Shah	91-22-4031-3332	manish@antiquelimited.com
Mr. Shiv Diwan	91-22-4031-3346	shiv.diwan@antiquelimited.com
Mr. Viraaj Teckchandani	91-22-4031-3327	viraaj@antiquelimited.com
Mr. Chaitanya Kotadia	91-22-4031-3336	chaitanya@antiquelimited.com
Mr. Anuj Sonpal	91-22-4031-3326	anuj@antiquelimited.com
Derivative Sales		
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	Promoters	Directors	Analyst
Ownership in Stock	No	No	No

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