## RESULTS REVIEW

**Share Data**

| | |
|---|---|
| Market Cap | Rs. 77.4 bn |
| Price | Rs. 172.05 |
| BSE Sensex | 8,863.82 |
| Reuters | TAMO.BO |
| Bloomberg | TTMT IN |
| Avg. Volume (52 Week) | 0.5 mn |
| 52-Week High/Low | Rs. 767/122 |
| Shares Outstanding | 449.8 mn |

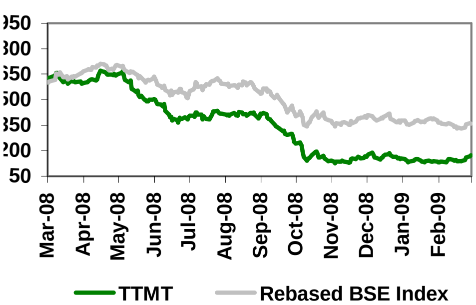
**Valuation Ratios (Consolidated)**

| Year to 31 March | 2009E | 2010E |
|---|---|---|
| EPS (Rs.) | 25.8 | 20.0 |
| +/- (%) | (41.4)% | (22.5)% |
| PER (x) | 6.7x | 8.6x |
| EV/ Sales (x) | 0.2x | 0.3x |
| EV/ EBITDA (x) | 3.3x | 3.1x |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoter | 48 |
| FIIs | 11 |
| Institutions | 19 |
| Public & Others | 22 |

**Relative Performance**




# Tata Motors — Sell

***Down under***

Tata Motors Limited (TML) reported weak results for the quarter ended December 2008. Q3'09 net sales declined 34.6% yoy to Rs. 47.1 bn on the back of 40% yoy fall in commercial vehicle (CV) volumes to 49,546 units. EBITDA dropped 90.3% yoy to Rs. 779 mn due to adverse product mix and higher raw material prices. This, coupled with higher interest cost burden to finance the JLR acquisition, has pushed TML's net profit margin southward. On the international front, the combined sales of Jaguar-Land Rover (JLR) dropped 35.2% yoy to 49,186 units resulting in a decline in operating cash flows. The total sales volumes (excluding that of JLR) declined by 30% and 15% in January and February, respectively. Moreover, due to the continuing slowdown in the global economies we do not expect an immediate revival in the demand for JLR and CVs. Taking this into account, our near-term outlook for the Company remains weak. Hence, we maintain our sell rating on the stock with a target price of Rs. 145.

**CV segment-a major worry:** The slowing of the Indian economy has led to a decline in the freight movement across the country, leaving spare capacities among the CV operators. This, in addition to high interest rates for these vehicles, has resulted in the decline of demand for CVs. Given TML's leadership position in this segment, the Company had to bear the maximum damage with volumes in heavy and medium commercial vehicles declining 59% yoy to 17,971 units. We expect the demand for CVs to remain weak until Q3'10, after which we believe, the economy will start reviving providing an impetus to the sales of CVs. Overall, we expect the volumes to fall ~19% and ~17% in FY09 and FY10, respectively.

**Key Figures (Standalone)**

| Quarterly Data | Q3'08 | Q2'09 | Q3'09 | YoY% | QoQ% |
|---|---|---|---|---|---|
| (Figures in Rs. mn, except per share data) | | | | | |
| Net Sales | 72,060 | 70,293 | 47,136 | (34.6)% | (32.9)% |
| Adj. EBITDA | 8,052 | 5,649 | 779 | (90.3)% | (86.2)% |
| Adj. Net Profit | 4,784 | 6,232 | (1,210) | N.M. | N.M. |
| **Margins(%)** | | | | | |
| EBITDA | 11.1% | 8.0% | 1.6% | | |
| NPM | 6.6% | 8.8% | (2.5)% | | |
| **Per Share Data (Rs.)** | | | | | |
| Adj. EPS | 11.2 | 14.7 | (2.5) | N.M. | N.M. |

| Quarterly Data | Q3'08 | Q3'09 | YoY% |
|---|---|---|---|
| Jaguar | 10,667 | 14,710 | 37.9% |
| Land Rover | 65,195 | 34,476 | (47.1)% |
| **Total** | **75,862** | **49,186** | **(35.2)%** |

**JLR turnaround-an unfinished task:** Though the sales of Jaguar increased 37.9% yoy to 14,710 units on account of new models, that of Land Rover declined 47.1% yoy to 34,476 units. We expect volumes of JLR to decline ~10% in FY10 as its major markets in Europe and the US are facing a drop in demand. The Company is also finding it difficult to raise sufficient capital to repay its USD 3 bn bridge loan that it had taken for acquiring JLR. Additionally, if the Company goes for refinancing its bridge loan then it will have to bear high interest burden. Moreover, Moody's has downgraded the rating of TML's corporate family rating from B3 to B1 and kept it on a negative outlook. Therefore, until and unless, TML successfully turns around JLR, the future of the Company remains weak.

**Nano-the savior:** TML has announced the launch of Nano in April 2009. However, we believe that the sales from Nano will contribute less than ~3% in FY10 to the top line, as the mother plant at Sanand, Gujarat, is scheduled to start production only from December 2009. Till then, the production of the Nano will be done from Company's manufacturing facilities at Pantnagar and Pune, which have very limited production capacity. As such, we expect the sales of the Nano to be approximately 75,000 units in FY10. However, after the mother plant at Sanand becomes operational, we believe the Nano will increasingly contribute to the top line of TML.

## Valuation

At the current market price (CMP) the stock is trading at a P/E of 6.7x and 8.6x of FY09E and FY10E, respectively. We have valued the Company by using SOTP valuation. Our valuation suggests a target price of Rs. 145, which translates into a potential downside of 15.7% from the CMP. Based on the Company's weak outlook and our valuation, we maintain our Sell rating on the stock.

## Result Highlights & Outlook

TML's net sales for Q3'09 decreased 34.6% yoy to Rs. 47.1 bn mainly due to the 40% yoy fall in volume of the CVs and lower net realisation of Rs. 477,281 per unit, compared with Rs. 498,311 per unit in Q3'09. The

| Quarterly Data | Q3'08 | Q3'09 | YoY% |
|---|---|---|---|
| **Domestic** | | | |
| M&HCV | 43,882 | 17,971 | (59.0)% |
| LCV | 38,686 | 31,575 | (18.4)% |
| **Total CV** | **82,568** | **49,546** | **(40.0)%** |
| Small | 32,269 | 26,153 | (19.0)% |
| Mid-Size | 5,746 | 9,896 | 72.2% |
| UV | 11,269 | 6,138 | (45.5)% |
| **Total PV** | **49,284** | **42,187** | **(14.4)%** |
| **Total Domestic** | **131,852** | **91,733** | **(30.4)%** |
| **Exports** | **12,756** | **7,027** | **(44.9)%** |
| **Total** | **144,608** | **98,760** | **(31.7)%** |

drop in volumes was witnessed in the majority of the segments barring that of the mid-sized personal vehicles which increased by a whopping 72.2% yoy to 9,896 units due to the encouraging response to the newly introduced Indigo CS. We expect CV sales volume and the exports volume to continue experiencing a downward pressure due to slowing global economies. Even the recent efforts by the Indian government such as reduction in excise duty, cut in fuel prices, and easing of loan disbursement are yet to show results for the CV and utility vehicles segment. However, we believe that the launch of the NANO will arrest the fall in the volumes in the small-size personal vehicle category. All in all, we expect a fall of ~20% and ~7% in net sales in FY09 and FY10, respectively.

Q3'09 EBITDA nosedived 90.3% yoy to Rs. 779 mn while the EBITDA margin plummeted 9.5 pts to 1.6%. As per the Company, the reason for this was the unfavourable product mix and higher raw material prices. However, we believe the EBITDA margin to improve in FY10 as a result of the sharp fall in raw material prices in the previous quarters. However, refinancing of the bridge loan and interest cost associated with it remains a major concern for the Company.

**Key Figures (Consolidated excluding JLR)**

| Year to March | FY06 | FY07 | FY08 | FY09E | FY10E | CAGR (%) |
|---|---|---|---|---|---|---|
| (Figures in Rs. mn, except per share data) | | | | | | (FY08-10E) |
| Net Sales | 237,695 | 323,612 | 356,515 | 287,570 | 268,206 | (13.3)% |
| Adj. EBITDA | 29,765 | 40,289 | 42,063 | 20,827 | 22,371 | (27.1)% |
| Adj. Net Profit | 17,196 | 21,700 | 20,698 | 12,082 | 11,914 | (24.1)% |
| **Margins(%)** | | | | | | |
| EBITDA | 12.5% | 12.4% | 11.8% | 7.2% | 8.3% | |
| NPM | 7.2% | 6.7% | 5.8% | 4.2% | 4.4% | |
| **Per Share Data (Rs.)** | | | | | | |
| Adj. EPS | 42.9 | 53.5 | 44.0 | 25.8 | 20.0 | (32.6)% |
| PER (x) | 20.4x | 15.3x | 13.7x | 6.7x | 8.6x | |

### Snapshot of the subsidiaries

The ongoing slowdown adversely affected the performance of TML's subsidiaries. Except Tata Technologies, all subsidiaries witnessed a fall in profit after tax (PAT).

***Subsidiary performance for the quarter***

| Subsidiary (figures in Rs. mn) | Q3'09 Turnover | YoY% growth | Q3'09 PAT | YoY% growth |
|---|---|---|---|---|
| **Tata Daewoo** | 6,049.0 | (35.5)% | 528.0 | (21.0)% |
| **Telecon** | 4,012.0 | (43.8)% | (411.0) | NM |
| **Tata Technologies** | 3,332.0 | 23.2% | 209.0 | 206.1% |
| **Tata Motor Finance** | 2,216.0 | (0.1)% | (316.0) | NM |
| **HV Transmissions** | 245.0 | (52.6)% | 21.0 | (84.3)% |
| **HV Axles Limited** | 274.0 | (49.5)% | 17.0 | (87.5)% |

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