

Company

15 February 2010 | 12 pages

Tata Motors (TAMO.BO)

 Equity

JLR: Lower Incentives = Higher Profits

- Premium car discounts have declined in the US** — almost 20% QoQ. The average incentives / vehicle for BMW, Mercedes and Porsche dipped to ~\$4,444 / unit in 3QFY10, indicating that discounting pressure is easing within premium cars – this augurs well for JLR, where typically ~15-20% of volumes are from the US.
- Pre-owned car prices remain steady the UK** — after a slight slippage in Oct / Nov, the average transaction price of a pre-owned car has firmed up again – indicating fairly healthy demand in the UK in the pre-owned market. We infer that pricing trends should also be stable in the new car market.
- 3Q Results could surprise positively** — Our explicit forecasts for JLR 3QFY10 factor sales of 50,000 units and EBITDA of £111m. That said, JLR has sold >56,000 units, implying upward risks to our estimates. We note that sensitivity to incentives / ASPs is also extremely high – a c£500 / vehicle reduction in incentives could result in EBITDA increasing by £25m (on a base of 50,000 units).
- JLR Jan 10 sales at 16,269 units** — imply that JLR has to achieve ~11,000 units / month over Feb / Mar to achieve our full year forecast of 174,900 units. We think this target is easily achievable, given the current run rate of ~16,000 units / month in 4Q. Seasonality is fairly high given model year changes, hence QoQ comparisons are rendered invalid.
- New model launches – XJ eagerly awaited** — Bookings had started in London (by early Dec) for March delivery, with an expected price of around UKP55,000 for the lower end up to ~UKP90,000 for the 5L XJR.
- Maintain Buy** — We caveat that global macro risks (and the knock-on impact on consumer confidence, auto sales, et al) is the key risk in the investment thesis for Tata Motors, given that JLR accounts of ~56% of consolidated revenue, and ~50%

Buy/Medium Risk	1M
Price (11 Feb 10)	Rs687.75
Target price	Rs828.00
Expected share price return	20.4%
Expected dividend yield	1.0%
Expected total return	21.4%
Market Cap	Rs355,527M
	US\$7,658M

Price Performance (RIC: TAMO.BO, BB: TTMT IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2008A	15,561	36.53	-16.1	18.8	3.4	21.2	2.2
2009A	9,042	17.59	-51.8	39.1	2.9	9.0	0.9
2010E	12,841	23.61	34.2	29.1	2.7	9.9	1.0
2011E	12,285	22.59	-4.3	30.5	2.6	8.7	1.0
2012E	19,600	36.03	59.5	19.1	2.4	12.8	1.6

Source: Powered by dataCentral

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

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of consolidated EBITDA (FY11 estimates).



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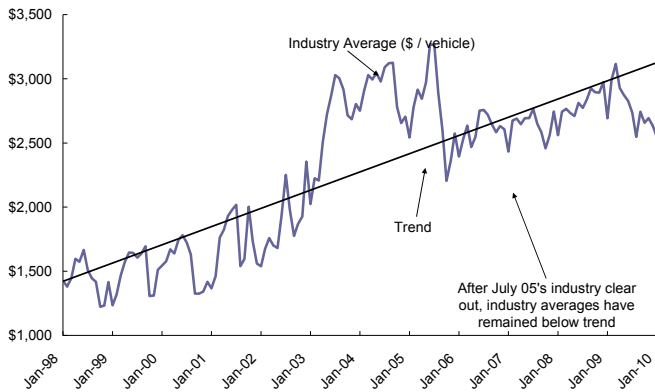
Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	18.8	39.1	29.1	30.5	19.1
EV/EBITDA adjusted (x)	12.8	20.2	9.6	8.8	7.1
P/BV (x)	3.4	2.9	2.7	2.6	2.4
Dividend yield (%)	2.2	0.9	1.0	1.0	1.6
Per Share Data (Rs)					
EPS adjusted	36.53	17.59	23.61	22.59	36.03
EPS reported	47.63	19.48	36.27	22.59	36.03
BVPS	203.34	237.92	253.56	268.62	292.66
DPS	15.00	6.06	7.08	6.78	10.81
Profit & Loss (RsM)					
Net sales	283,776	256,297	292,213	333,339	417,929
Operating expenses	-264,468	-248,030	-266,312	-306,243	-382,529
EBIT	19,308	8,267	25,901	27,096	35,400
Net interest expense	-2,824	-6,737	-10,780	-13,215	-13,266
Non-operating/exceptionals	9,281	8,607	8,888	2,500	4,000
Pre-tax profit	25,765	10,138	24,009	16,380	26,134
Tax	-5,476	-125	-4,280	-4,095	-6,533
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	20,289	10,013	19,729	12,285	19,600
Adjusted earnings	15,561	9,042	12,841	12,285	19,600
Adjusted EBITDA	26,475	17,013	36,401	39,695	49,410
Growth Rates (%)					
Sales	4.0	-9.7	14.0	14.1	25.4
EBIT adjusted	-21.6	-57.2	213.3	4.6	30.6
EBITDA adjusted	-15.6	-35.7	114.0	9.1	24.5
EPS adjusted	-16.1	-51.8	34.2	-4.3	59.5
Cash Flow (RsM)					
Operating cash flow	69,655	12,468	36,666	28,969	29,948
Depreciation/amortization	7,167	8,745	10,500	12,600	14,010
Net working capital	46,275	-3,844	11,983	4,084	-3,662
Investing cash flow	-72,076	-130,794	-129,405	-25,000	-25,000
Capital expenditure	-47,744	-50,216	-25,000	-25,000	-25,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	12,122	104,386	84,433	-3,969	-4,948
Borrowings	22,714	68,850	88,540	122	1,579
Dividends paid	-6,597	-3,457	-4,276	-4,091	-6,527
Change in cash	15,706	-12,555	-1,418	0	0
Balance Sheet (RsM)					
Total assets	257,524	372,612	486,296	497,983	515,592
Cash & cash equivalent	23,973	11,418	10,000	10,000	10,000
Accounts receivable	11,307	15,552	15,383	12,687	11,431
Net fixed assets	104,523	145,993	160,493	172,893	183,883
Total liabilities	179,129	250,310	348,372	351,865	356,401
Accounts payable	83,917	87,313	77,094	80,450	80,771
Total Debt	38,805	111,656	202,196	202,317	203,896
Shareholders' funds	78,395	122,302	137,923	146,117	159,191
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.3	6.6	12.5	11.9	11.8
ROE adjusted	21.2	9.0	9.9	8.7	12.8
ROIC adjusted	14.2	6.8	14.2	13.8	16.1
Net debt to equity	18.9	82.0	139.3	131.6	121.8
Total debt to capital	33.1	47.7	59.4	58.1	56.2

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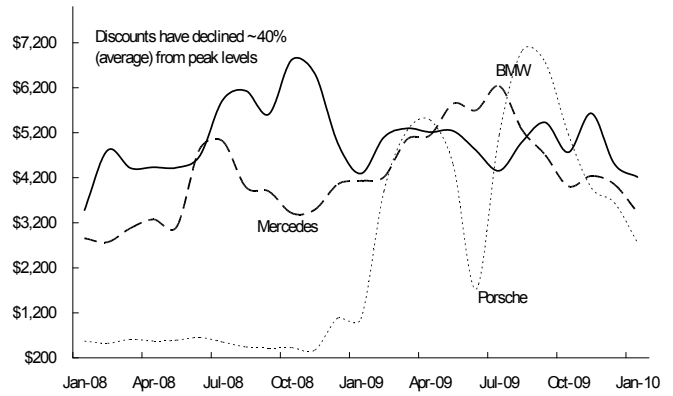
Healthy Trends in Macro Indicators

Figure 1. Trends in Incentives: US Autos (\$ / vehicle)



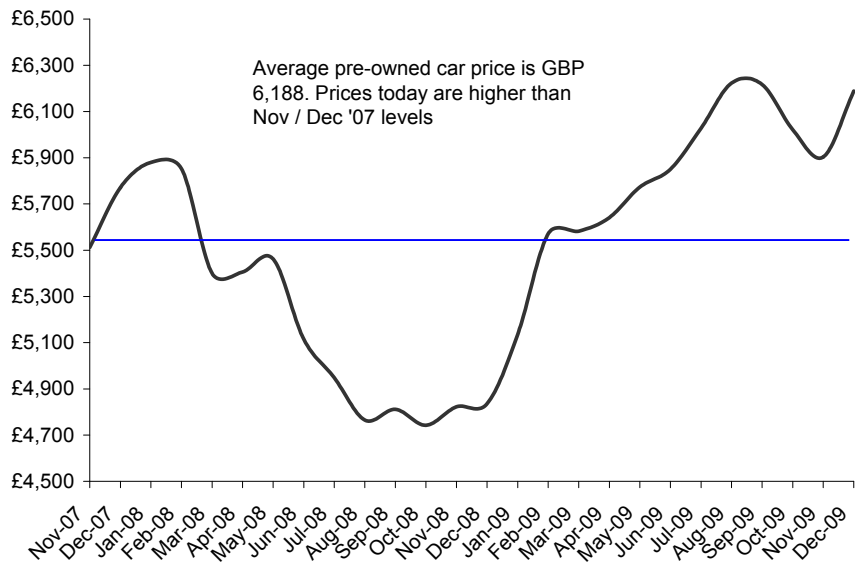
Source: Autodata

Figure 2. Trends in Incentives: Premium Cars (\$ / vehicle)



Source: Autodata

Figure 3. Trends in Pre-Owned Car Transactions (£ / vehicle)



Source: BCA

Figure 4. Jaguar Land Rover : Quarterly Profit and Loss Statement (GBP m; except per vehicle data)

	1QFY10	2QFY10	3QFY10E
INCOME			
Sale of products and other operating income	1,125	1,420	1,625
<i>Per vehicle</i>	<i>31,337</i>	<i>32,054</i>	<i>32,500</i>
EXPENDITURE			
Raw materials and components	814	987	1,100
<i>Per vehicle</i>	<i>22,674</i>	<i>22,280</i>	<i>22,000</i>
Employee cost	176	187	160
<i>Per vehicle</i>	<i>4,903</i>	<i>4,221</i>	<i>3,200</i>
Manufacturing cost and other expenses	170	205	254
<i>Per vehicle</i>	<i>4,735</i>	<i>4,628</i>	<i>5,073</i>
Total expenditure	1,160	1,379	1,514
<i>Per vehicle</i>	<i>32,312</i>	<i>31,129</i>	<i>30,273</i>
EBITDA	(35)	41	111
EBITDA Margin (%)	3.11	2.89	6.85

Source: Company data, Citi Investment Research and Analysis estimates

Figure 5. JLR: Trends in Wholesale/retail sales

	June - Sept2008	3QFY09	4QFY09	FY09	1QFY10	2QFY10	3QFY10
Wholesale	85,451	49,186	32,663	167,300	35,947	44,305	56,778
Retail	51,206	47,702	46,992	145,900	47,146	46,793	NA
Re/(de)stocking	34,245	1,484	(14,329)	21,400	(11,199)	(2,488)	NA
Monthly average retail sales	12,802	15,901	15,664	14,590	15,715	15,598	NA

Source: Company data, Citi Investment Research and Analysis estimates

Figure 6. Tata Motors: Consolidated Profit and Loss Statement (Rs m)

	FY08	FY09	FY10E	FY11E	FY12E
Net sales & operational income	356,515	709,389	778,203	901,858	1,030,987
% change YoY	9.9	99.0	9.7	15.9	14.3
Raw material expenses	243,624	480,556	524,223	601,913	690,242
% of net sales	68.3	67.7	67.4	66.7	66.9
Manpower costs	27,452	72,974	79,265	77,284	83,241
% of net sales	7.7	10.3	10.2	8.6	8.1
Other variable expenses	21,656	80,000	33,788	35,411	39,681
% of net sales	6.1	11.3	4.3	3.9	3.8
Fixed expenses	34,658	100,591	134,390	139,623	151,286
% of net sales	9.7	14.2	17.3	15.5	14.7
Expenses Capitalised	(13,607)	(46,698)	(49,800)	(51,800)	(49,800)
Cost of sales	313,782	687,424	721,867	802,432	914,651
% of sales	88.0	96.9	92.8	89.0	88.7
EBITDA	42,732	21,965	56,336	99,426	116,336
Product Development	660	3,478	3,542	3,850	3,850
Interest	7,431	19,309	21,050	24,305	25,196
Other income	2,675	7,990	3,220	3,975	5,701
EBDT	37,317	7,168	34,964	75,245	92,991
Depreciation	7,821	25,068	30,690	33,712	35,970
Exceptionals	-1367.1	(3,393)	11,893	-	-
PBT	30,864	(21,293)	16,167	41,534	57,021
Tax	8,515	3,358	4,731	5,239	8,234
PAT	22,348	(24,650)	11,436	36,295	48,786
Adj of Misc Exp in Subsidiaries	(0.6)	-	-	-	-
Minority Interest and share of profits from associate cos	-670.5	(403)	196	752	1,123
PAT (reported)	21,677	(25,053)	11,632	37,046	49,910
Profit Margins					
EBITDA (%)	12.0	3.1	7.2	11.0	11.3
EBDT (%)	10.5	1.0	4.5	8.3	9.0
Pre tax margins (%)	8.7	-3.0	2.1	4.6	5.5
Tax / PBT (%)	27.6	(15.8)	29.3	12.6	14.4
Net profit margins (%)	6.1	-3.5	1.5	4.1	4.8
EPS (Rs)	56.2	-48.7	21.4	68.1	91.7
CEPS (Rs)	76.5	0.0	77.8	130.1	157.9

Source: Citi Investment Research and Analysis estimates

Tata Motors

Company description

Tata Motors is one of the main companies of the Tata Group, India's largest business conglomerate. It 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 too. The company has acquired a 100% stake in Jaguar and Land Rover.

Investment strategy

We rate Tata Motors Buy / Medium Risk. From a thematic stance, TAMO is a key beneficiary of a revival in the domestic investment cycle (the value ascribed to the domestic business exceeds the value ascribed to JLR). Our upgrade is predicated on: 1) a bottoming out of the global macro-economic environment which should result in premium car / SUV sales registering modest growth in FY11/12E; 2) stable liquidity and credit conditions should ensure that TTMT is able to secure funding for its businesses and refinancing of its debt (essential given its high level of indebtedness); 3) increasing clarity on JLR financials will remove the overhang on the share price and could even result in a further re-rating.

Valuation

Our Rs828 target price for Tata Motors is based on a sum-of-the-parts valuation. We value Tata Motors' core business at Rs730/share (on a diluted sharecount of 544m shares), based on 10x Mar11E EV/EBITDA. We value subsidiaries and investments at Rs77/share (incorporating a 20% holding company discount). We attribute Rs22/share to JLR - we value this at 5x Mar 11E EV/EBITDA, which equates to Rs471/share and then deduct the total net debt which amounts to Rs449/share. At our target price, TTMT would trade at a consolidated price / book value of 4.5 / 3.1 times (FY11/12E), which appears reasonable when juxtaposed against ROEs of 37.2%, 34.9 % in FY11/12 respectively. On a P/E basis, the stock would trade at ~12.2x and 9x FY11/12E P/E.

Risks

Our quantitative risk rating system, which tracks 260-day historical share price volatility, rates Tata Motors High Risk. We assign a Medium Risk flag, however, as a) the short-term debt raised to fund the JLR deal has been refinanced, and b) the core CV business has improved sequentially from 3QFY09 lows.

The key risks emanate from: a) Weaker than forecast demand conditions for luxury cars and SUVs in Europe and the US. Given the high leverage of this business to both volumes and EPS, the key risk is if JLR volumes are lower than anticipated; b) Our CV forecasts are predicated on our economist Rohini Malkani's view that industrial growth should remain fairly healthy (in the 8-9% range), in both FY11/12E. We have assumed that MHCV volume growth will be fairly tepid in FY11E (around 5%), given the emission change over and also the (expected) roll-back in excise incentives; c) We assume that the credit and liquidity environment will remain stable. A credit 'crunch' could impact consumer confidence and possibly JLR's sales (especially in developed markets). Given TTMT's highly leveraged balance sheet, this is a significant risk. We also implicitly assume that TTMT will raise equity over the next 1 year to rectify its balance sheet. A credit shock (followed by a dislocation in the equity markets) could delay the restructuring of the balance sheet.

Appendix A-1

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Tata Motors (TAMO.BO)

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Fundamental Research

Analyst: Jamshed Dadabhyo

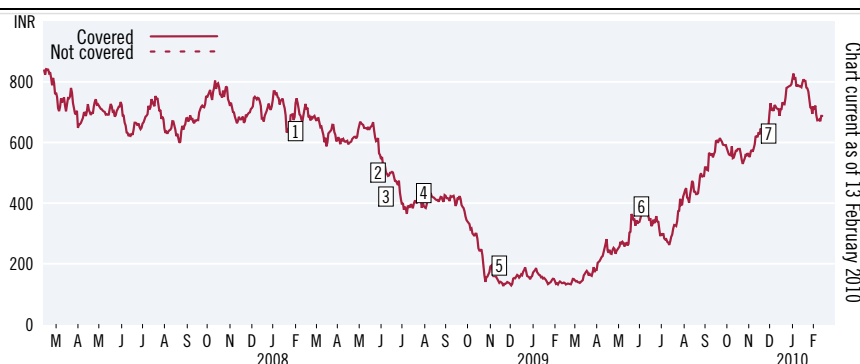


Chart current as of 13 February 2010

	Date	Rating	Target Price	Closing Price
1	1-Feb-08	1L	*885.15	730.49
2	28-May-08	1L	*766.03	614.71
3	8-Jun-08	*1M	*651.75	523.00

	Date	Rating	Target Price	Closing Price
4	31-Jul-08	*2M	*458.07	390.52
5	14-Nov-08	*2H	*163.00	136.95
6	3-Jun-09	*2M	*384.00	362.00

	Date	Rating	Target Price	Closing Price
7	30-Nov-09	*1M	*828.00	660.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2009

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