ABN·AMRO

Wednesday 11 June 2008

Change of target price

Tata Motors

Overhang of large equity dilution

The weak March quarter EBITDA margins and the proposed large rights issue to fund the Jaguar buy disappoint us. We maintain Hold on better-than-expected Jaguar financials and volume growth, but trim our target price to Rs474.7 ex-rights.

Key forecasts

	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue (Rsm)	273929	285314	327398	386701	449101
EBITDA (Rsm)	32719.7	27553.1	29337.2	36529.0	42564.3
Reported net profit (Rsm)	19135.1	20289.2	12905.4	15886.9	19154.9
Normalised net profit (Rsm)[1]	18730.6	15531.6	12905.4	15886.9	19154.9
Normalised EPS (Rs)	35.6	29.5	24.5▼	30.2▼	36.4
Dividend per share (Rs)	15.0	15.0	9.00	10.0	12.0
Dividend yield (%)	2.94	2.94	1.77	1.96	2.35
Normalised PE (x)	14.3	17.3	20.8▲	16.9▲	14.0
EV/EBITDA (x)	6.98	9.20	10.0	7.96	6.93
Price/book value (x)	3.90	3.14	1.98	1.70	1.58
ROIC (%)	21.6	12.4	8.61	6.71	7.26

1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

March quarter disappoints on EBITDA

For the March 2008 quarter, Tata Motors' standalone EBITDA was 7.2% below our expectation, falling 220bp qoq and 190bp yoy in spite of steep 20% qoq volume growth. However, high other income and low interest and tax expenses led to a 27% surprise in PAT. EPS was Rs15.5.

Jaguar Land Rover (JLR) acquisition - incremental positive updates

In the conference call post the formal JLR acquisition, management surprised us with a better-than-expected CY07 EBITDA margin (5.5%), 6.1% sales volume growth for January-May 2008 vs our expectation of 3% growth, and a 200bp EBITDA margin expansion in the January-March 2008 quarter. Hence, we raise our JLR profit projections and improve value per share from -Rs38 per share to Rs53 per share despite factoring in the substantial equity dilution plan.

Standalone EPS slides for equity dilution

We maintain our standalone normalised PAT for FY09F and FY10F, as the EBITDA margin compression should be absorbed by lower interest costs. However, the proposed Rs42bn rights issue, which the company expects will be priced at a steep discount to the market price and will lead to 30-35% dilution, impacts our EPS estimate. Further, pending dilution of 14% from FCCB issues and convertible preference shares limits potential for EPS surprises, in our view.

Hold maintained, but target price lowered

On our revised subsidiary value of Rs141.7 per share, the stock looks fairly valued at 15.1x FY09F and 12.5x FY10F standalone EPS. Even though we expect EPS momentum to improve from FY10, the large equity fund-raising plan, coupled with a weak CV cycle recovery, limits potential upside. We value the standalone business on a three-stage DCF basis at Rs333/share, leading to an SOTP-based target price of Rs474.7 ex-rights (previously Rs570.6 pre-rights). The large part of the cut in target price is due to factoring in a steep discount to reflect the expected rights issue price. Maintain Hold.

Priced at close of business 10 June 2008. Use of ▲▼ indicates that the line item has changed by at least 5%.

Mafatlal Chambers – C Wing, Ground Floor, N.M. Joshi Marg, Lower Parel (E),
Mumbai 400 013, India. Tel : +91 022 6754 8411 Fax : +91 022 6754 8420

Hold

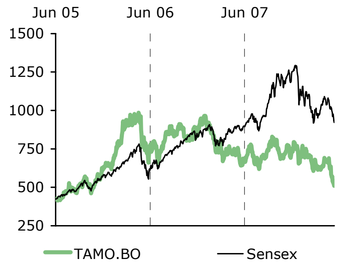
Absolute performance
n/a
Short term (0-60 days)
Overweight
Market relative to region

Capital Goods
India

Price
Rs509.75
Target price
Rs474.70 (from Rs570.60)
Market capitalisation
Rs196.53bn (US$4.58bn)
Avg (12mth) daily turnover
Rs255.18m (US$6.29m)

Reuters	**Bloomberg**
TAMO.BO	TTMT IN

Price performance	**(1M)**	**(3M)**	**(12M)**
Price (Rs)	669.3	673.9	653.6
Absolute %	-23.8	-24.4	-22.0
Rel market %	-14.4	-19.1	-26.3
Rel sector %	-17.0	-17.7	-14.7



Stock borrowing: Moderate
Volatility (30-day): 41.36%
Volatility (6-month trend): ↑
52-week range: 840.00-505.00
Sensex: 14889.25
BBG AP Eng & Mach: 182.40

Source: ABN AMRO, Bloomberg

Researched by
ABN AMRO Institutional Equities Team

www.abnamrobroking.co.in

Large rights equity issue overhang

The incremental surprise in JLR's financial performance is negated by the large equity funding planned for the acquisition, in our view. We trim our SOTP-based target price to Rs474.7 ex-rights. Hold maintained.

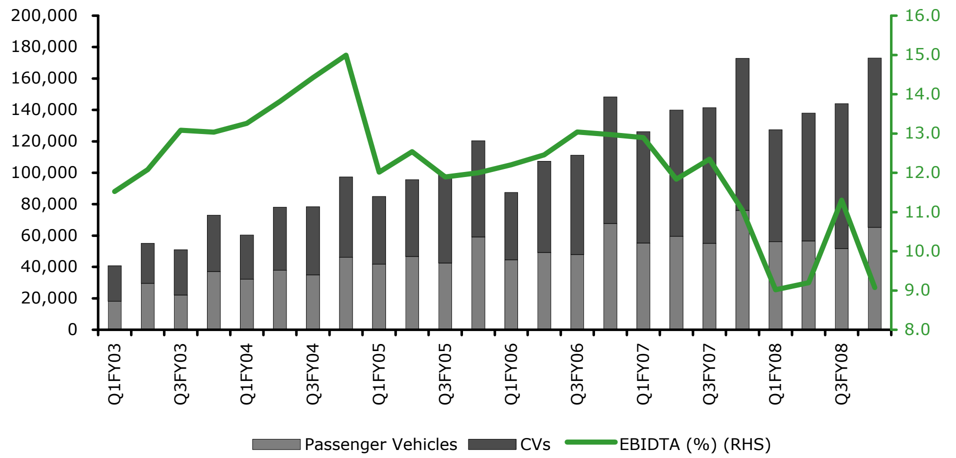
March 2008 quarter disappoints by 7% on EBITDA

Deriving March 2008 quarter financials from the March 2008 full-year financials, the standalone EBITDA was 7.2% below our expectation at Rs7.94bn, down 12% yoy. This was despite 6.6% growth in net sales to Rs87.5bn. Higher raw material to net sales (72.7%) brought down the EBITDA margin to 9.1%, down 190bp yoy and 220bp qoq. EPS for the quarter was Rs15.5. But higher other income (up 165% to Rs1.6bn) and lower tax (21.5%) led to a surprise 14.4% rise in PAT to Rs5.9bn (vs our expectation of Rs4.64bn). However, excluding extraordinary expenses of Rs529m, standalone PAT for the quarter fell 6.7% to Rs5.38bn.

For FY08, standalone EPS fell 17% to Rs40.3 and consolidated entity EPS fell 10.7% to Rs52.7 on equity of 385.5m shares. Normalised PAT fell 17% to Rs15.5bn on a 4.2% increase in net sales to Rs285.3bn. EBITDA margin was down 220bp to 9.7%, leading to a 15.8% dip in EBITDA, as, except for the December 2007 quarter, the rest of the quarterly EBITDA margins were around 9%. But a 40% jump in other income helped cushion the impact on PAT.

Consolidated entity normalised PAT (post minority) for the full year fell 10.7% to Rs20.3bn on a 9.8% increase in net sales to Rs356.5bn. EBITDA was flat as margins fell 100bp to 12%. Dividend was maintained at 150%.

Chart 1 : EBITDA margin trend



Source: Company data, ABN AMRO

Other highlights:

- Outstanding vehicle loans of standalone entity were Rs24bn in FY08 vs Rs40bn last year.
- Total vehicle loan disbursement was up 9% at Rs93.9bn, implying a 33.6% market share.

- The company has said the Marcopolo JV will start production in FY09 from its Karnataka plant.

Good subsidiary performance

Tata Daewoo and Telco Construction continued to lead other subsidiaries with nearly a 90% and 76% rise in FY08 PAT, respectively, assisted by the good business environment. We expect PAT mometum to ease in FY09, but rise again in FY10, given the moving forward of CV sales in Korea in CY07 due to new emission norms and the expected World Truck launch in the coming months. For Telco Construction, we haven't built in synergies and financials of recent acquisitions Serviplem SV (79% ownership) and Lebrero (60% ownership) for want of some details.

Table 1 : Subsidiary performance and outlook

Subsidiary	Holding (%)	Sales (Rs m)			PAT (Rs m)		
		FY08	FY09F	FY10F	FY08	FY09F	FY10F
Tata Daewoo	100.0	30,752.1	36,164.5	42,628.9	1,584.8	1,795.2	2,178.3
Growth(%)		31.8%	17.6%	17.9%	90.9%	13.3%	21.3%
Jaguar Land Rover	100.0	597,680.0	675,397.0	740,485.6	25,960.0	25,079.4	27,075.7
Growth(%)		15.2%	13.0%	9.6%	na	-3.4%	8.0%
Telco Construction	60.0	27,179.9	33,974.9	40,769.9	3,236.2	3,812.0	4,158.5
Growth(%)		48.7%	25.0%	20.0%	76.0%	17.8%	9.1%
HV Axles	85.0	2,032.4	2,174.7	2,392.1	634.1	623.9	668.2
Growth(%)		3.3%	7.0%	10.0%	9.5%	-1.6%	7.1%
HV Transmisions	85.0	1,922.9	2,153.6	2,476.7	474.4	490.0	547.3
Growth(%)		9.5%	12.0%	15.0%	5.4%	3.3%	11.7%
Tata Technologies	84.8	11,002.5	13,203.0	15,579.5	299.9	451.5	607.6
Growth(%)		14.5%	20.0%	18.0%	84.0%	50.6%	34.6%
TML Financial Services	100.0	8,369.4	10,043.3	12,051.9	447.7	542.3	614.6
Growth(%)		423.0%	20.0%	20.0%	250.0%	21.1%	13.3%

Source: Company data, ABN AMRO estimates

Rights issue and partial FCCB conversion to expand equity to 5.26bn shares

Tata Motors surprised with its US$1.8bn rights issue plan at a steep discount to the current price to fund the JLR acquisition. We had expected an FCCB issue of just US$1bn at a premium. We expect pricing to be Rs333-350 per share (at one share for every six shares held), based on management guidance of a 30-35% dilution from the proposed rights issue of Rs42bn. Further, we expect 0.5% compulsory convertible debenture conversion at Rs575 per share from 2011-13 as per management guidence of further 12% dilution.

Table 2 : Rights issue plan

Issue type	Issue Size (Rs m)	Pricing* (Rs)	No of shares issued (m)	Issue/ Conversion year
Rights shares	22,000	350	62.9	FY09
Differential Voting Rights shares	20,000	333	60.2	FY09
Convertible Preference shares	30,000	575	52.2	FY12-16

** Pricing and timing of rights issue is pending regulatory approvals.*
Source: Company data, ABN AMRO estimates

In our financial model, we haven't built in dilution from preference share conversion and FCCBs in the Rs960.7-1,001.4 price range, as we expect them to happen post FY11. However, the FCCBs carry a high dilution risk considering that the large Rs72bn rights issue may trigger the reset clause on conversion price.

Table 3 : Equity dilution road map

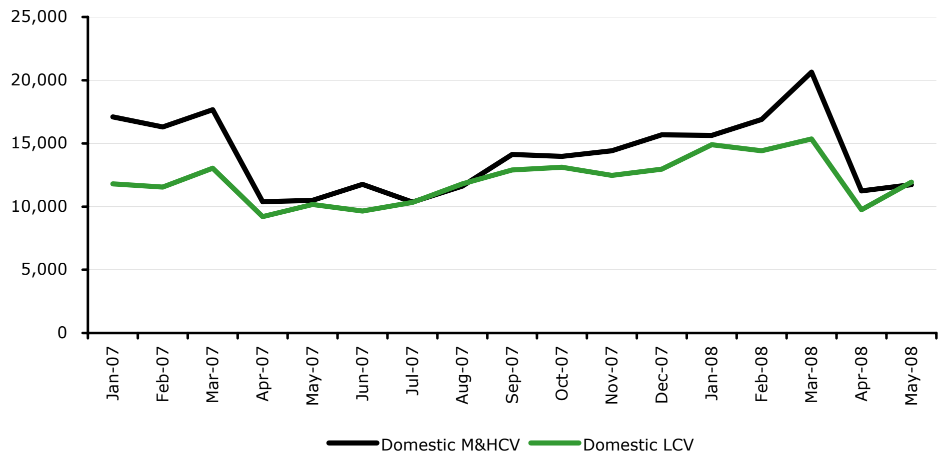
Issue type	No of shares (m)	Year of Conversion
Existing	385.54	
Rights Shares	62.86	FY09F
Rights Shares with 1/10th voting rights	60.15	FY09F
FCCB (Rs.250.7 conversion)	0.01	FY09F
FCCB (Rs.573.1 conversion)	0.34	FY09F
FCCB (Rs.780.4 conversion)	16.86	FY10F
Partially Diluted Equity	525.75	
Pending FCCB (Rs.1001.4)	4.41	Before Feb 2011
Pending FCCB (Rs.960.7)	19.20	Before June 2012
Convertible Preference shares	52.17	Between Year 2011-13
Fully Diluted Equity	601.53	

Source: ABN AMRO, ABN AMRO estimates

Gradual recovery of M&HCV in line with our recent downgrade

Medium and heavy commercial vehicle sales volume has recovered gradually during April-May 2008 despite the low volume base effect, which is in line with our recent downgrade estimates. With the base effect easing out in coming months, coupled with weakening IIP growth and the recent 7% increase in diesel prices affecting truck operator profits, we expect growth to taper to 3% in FY09. For FY10, we expect a recovery in demand to 7.7%. LCVs also seem to be on a slow uptick, as we expect the momentum in Tata Magic to come at the cost of ACE.

Chart 2 : Tata Motors monthly domestic CV volume trend



Source: Company data

We trim EBITDA margins for FY09F, FY10F

The sharp dip in EBITDA margins in the March 2008 quarter was disappointing, given the recovery in the December 2007 quarter to 11.3% and 20% qoq growth in sales volume. With steep input price increases and the planned Tata *Nano* launch (where we expect raw material to net sales to be higher than corporate average), we trim our EBITDA margin expectation for FY09 by 50bp and for FY10 by 40bp. However, the proposed equity dilution to fund the JLR acquisition would reduce interest expense, leading to no change in PAT but a big impact on EPS and three-stage DCF value (to Rs333 from Rs441).

Table 4 : EPS revision highlights

	FY09F		FY10F	
	New	Old	New	Old
Sales Volume (nos)	687,685	687983	921,726	922177
Change (%)	0.0%		0.0%	
Net Sales	327,398	324213	386,701	382318
Change (%)	1.0%		1.1%	
EBITDA	29,337	30778	36,529	37623
Change (%)	-4.7%		-2.9%	
Normalised PAT	12,905	12912	15,887	15884
Change (%)	-0.1%		0.0%	
EPS (Rs)	24.5	32.1	30.2	39.4
Change (%)	-23.5%		-23.3%	

Source: ABN AMRO forecasts

Figure 1 : DCF valuation for the core business

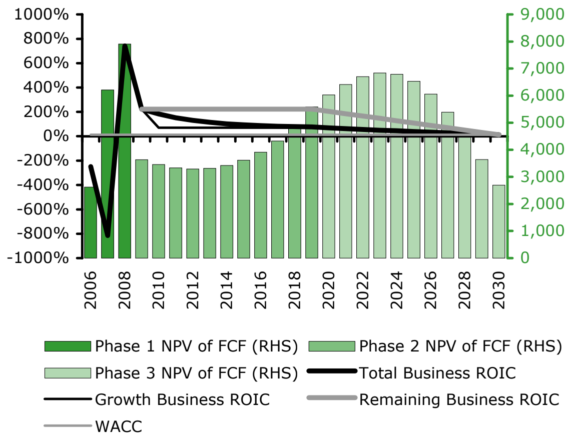
Economic Profit Valuation	Rs m	%
Adjusted Opening Invested Capital	115494.9	56
NPV of Economic Profit During Explicit Period	7138.5	3
NPV of Econ Profit of Remaining Business (1, 2)	39279.8	19
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	44279.5	21
Enterprise Value	206192.6	100
Plus: Other Assets (key subsidairy value)	0.0	0
Less: Minorities	0.0	0
Less: Net Debt (as at 11 Jun 2008)	31351.1	15
Equity Value	174841.5	85
No. Shares (millions)	525.8	
Per Share Equity Value	**333.0**	
Current Share Price	509.75	

Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	**10.6%**	469	493	509	533	549
	11.6%	404	421	432	448	459
	12.6%	349	361	369	380	387
	13.6%	303	311	316	324	328
	14.6%	264	269	273	277	280

Performance Summary	2009	2010	2011	Phase 2 Avg (2012 - 2022)
Invested Capital Growth (%)	-9.0	3.1	7.0	13.6
Operating Margin (%)	6.0	6.4	6.5	6.5
Capital Turnover (x)	3.0	3.8	4.3	4.6

Discounted Cash Flow Valuation	Rs m	%
Value of Phase 1: Explicit (2006 to 2008)	38034.1	18.4
Value of Phase 2: Value Driver (2009 to 2019)	50457.5	24.5
Value of Phase 3: Fade (2020 to 2030)	53884.6	26.1
Terminal Value	63814.0	30.9
Enterprise Value	206190.2	100.0
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		6.8
FCF Grth Rate at end of Phs 1 implied by Current Price		-417.7

Returns, WACC and NPV of Free Cash Flow



Source: ABN AMRO estimates
1. In periods following the Explicit Period i.e. Phase 2 and Phase 3
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
3. Net Investment is defined as capex over and above depreciation after Phase 1

Positive news flow on JLR financials since acquisition

From the announcement of the JLR acquisition on 23 April 2008 to the recent conclusion of the deal, management has surprised us on the following parameters:

- Sales volume growth for January-May 2008 was 6.1% vs our expectation of 3% for CY08, as Jaguar's new model *XF* and *Land Rover's* new growth markets (China and Russia) drove growth.
- Sharp improvement in JLR performance from CY06 to CY07 as EBITDA margins improved from -0.6% to 5.5%.
- 200bp EBITDA margin expansion from January-March 2008.

Hence, we raise our expectation of JLR's profitability (not factoring in sustainability of the March 2008 EBITDA margin expansion) and increase its value contribution to our

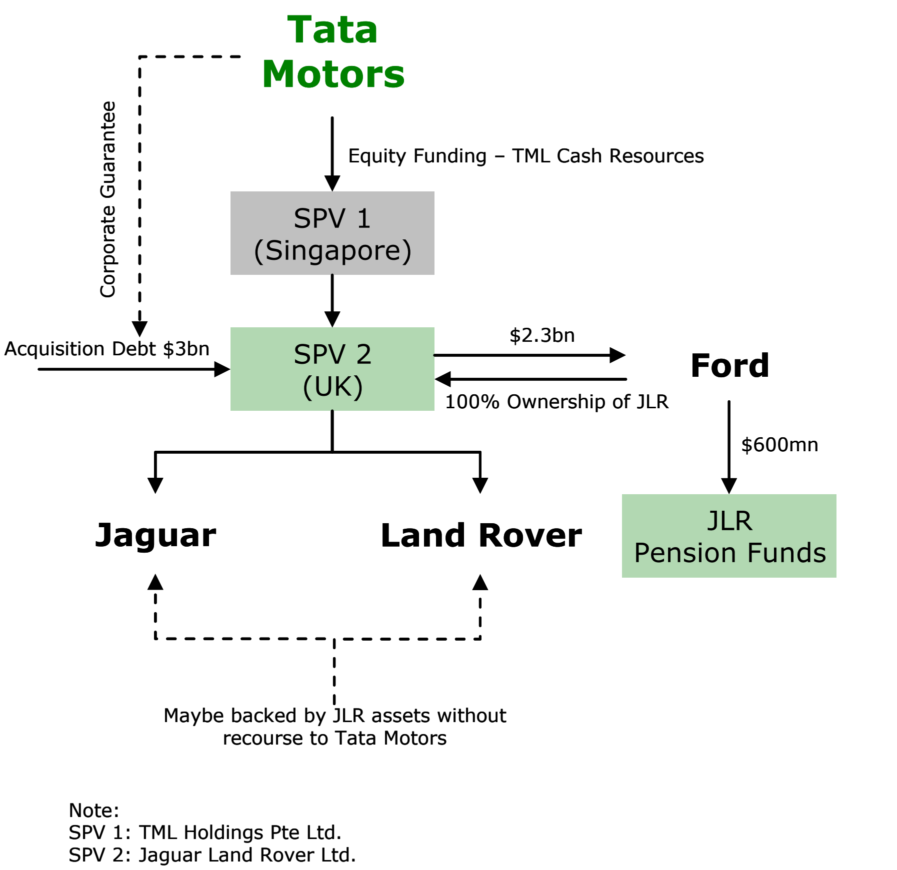
SOTP from -Rs38 per share to +Rs53 per share, keeping the valuation intact at 2.5x CY08F EV/EBITDA.

Table 5 : JLR financials

US$ m	CY05	CY06	CY07	CY08F	CY09F	1QCY07	1QCY08
Sales volume	274,922	268,593	286,880	300,170	310,469	115,000	122,000
Growth (%)		-2.3%	6.8%	4.6%	3.4%		6.1%
Sales realisation per vehicle	45,329	48,285	52,084	56,251	59,626	30,852	33,975
Growth (%)		6.5%	7.9%	8.0%	6.0%		10.1%
Sales	12,462.0	12,969.0	14,942.0	16,884.9	18,512.1	3,548.0	4,145.0
EBITDA	(509.0)	(73.0)	821.0	877.0	926.9	356.9	502.6
EBITDA margin (%)	-4.1%	-0.6%	5.5%	5.2%	5.0%	10.1%	12.1%
Depreciation & amortisation	-325	-350	-387	-400	-410	(91.9)	(101.6)
Other income	336	66	215	150	160	24	16
Profit before tax	(498.0)	(357.0)	649.0	627.0	676.9	289.0	417.0
Normalised PAT	(498.0)	(357.0)	649.0	627.0	676.9	289.0	417.0
Exceptional expenses	-1434	-1751	-30	-417	0	-15	-417
PAT	(1,932.0)	(2,108.0)	619.0	210.0	210.0	274.0	-

Source: Company data, ABN AMRO forecasts

Chart 3 : Holding structure for JLR



Source: Company data

Subsidiary value revisited

We revisit subsidiary value, given sharp volatality in comparable company valuations and a change in our estimate of Tata Motors' subsidiary PAT. In spite of the proposed equity dilution, we marginally increase subsidiary value per share from Rs130 per share to Rs141.7 per share, driven by good performance from large subsidiaries and turnaround in JLR value.

Table 6 : Subsidiary value details

Subsidiaries	Tata Daewoo	Telco Construction	HV Axles	HV Transmisions	Tata Technologies	TACO	Tata Cummins	TML Financial Services	JLR
PAT for FY09F (Rs m)	1795	3812	624	490	452	498	665	542	35,079.4
Tata Motors Holding (%)	100	60	85	85	84.76	50	50	100	100
Comparative company	Ashok Leyland	BEML	Automotive Axles	Automotive Axles	Geometric Ltd.	Bharat Forge	Cummins India	Shriram Transport Finance	BMW
Comparative valuation (Bloomberg consensus)	9X FY09F PE	15.2x FY09F PE	6.3x FY09F PE	6.3x FY09F PE	6.6x FY09F PE	15.5x FY09F PE consolidate	14.5x FY09F PE	11.4x FY09F PE	2.7x CY08F EV/EBITDA Automotive division
Reason for premium/discount to peerset valuation	Inline valuation	Discount valuation for its relatively small scope of its operations	Discount valuation for dependence on Tata Motors	Discount valuation for dependence on Tata Motors	Premium valuation for its wide spectrum of operations	Discount valuation as it's diverisified and yet to make global footprint	Discount valuation for dependence on Tata Motors	Discount valuation for dependence on Tata Motors	Marginal discount for the relatively smaller size of operations
PE or EV/EBITDA (FY09F)	9	13	6	6	8	10	12	8	2.5
Total value of the stake (Rs m)	16,157	29,733	3,182	2,499	3,062	2,490	3,992	4,339	27,699
Value per share of Tata Motors	30.7	56.6	6.1	4.8	5.8	4.7	7.6	8.3	52.7
Total subsidiary value per share of Tata Motors	177.2								
Value post 20% holding company discount	141.7								

Source: ABN AMRO estimates, Bloomberg

Maintain Hold, trim target price to Rs474.7

At the current market price, adjusting for subsidiary value of Rs141.7 per share, the stock trades at 15.1x FY09F and 12.5x FY10F standalone EPS. Deriving the core business value of Rs333 from a three-stage DCF, we peg our target price at Rs474.7 ex-rights, implying potential downside of 7% from current levels. The large part of our downgrade in target price is to reflect the expected deep discount of the rights issue. On a like-for-like ex-rights basis, this equates to trimming our target price from Rs515 to Rs.474.7.

Looking at the rights issue from the perspective of a current shareholder, at the current market price, subscribing to the rights issue would reduce average holding cost to Rs469 as against our target price of Rs474.7. Hence we mentain our Hold recommendation.

Table 7 : For a shareholder with 100,000 shares...

	Current holding	Rights common shares	Rights with differential vote shares	Total
No of shares	100,000.0	16,313.2	15,600.6	131,913.8
CMP/Issue price (Rs)	509.8	350.0	332.5	469.0
Value (Rs)	50,975,000	5,709,625	5,187,207	61,871,832

Source: ABN AMRO Estimate, Bloomberg

We expect EPS momentum to improve from FY10 from the low base of FY09F, as *Nano* volume picks up along with a gradual recovery in CVs. But the large equity issue overhang is a concern. At a 7.3% EPS CAGR for FY08-11F, and pending FCCB conversion dilution of 14.4% at higher prices, we see limited potential for EPS surprises.

The key upside risks to our SOTP-based target price are consistent improvement in the CV sales cycle, continuation of JLR's superior profitability, or a very strong response to the Tata *Nano*. On the downside, a prolonged deterioration in the CV cycle on the back of rising operating costs of transporters or weakness in car demand from rising fuel prices may impact profitability.

Key assumptions

Table 8 : Sales volume and per-unit assumptions

	FY07	FY08	FY09F	FY10F	FY11F
Sales volume (nos)					
Domestic sales volume					
Medium & heavy commercial vehicles	172,842	165,249	170,302	183,356	201,907
Growth (%)	34.3	-4.4	3.1	7.7	10.1
Light commercial vehicles	125,744	147,686	165,021	192,853	219,707
Growth (%)	45.8	17.4	11.7	16.9	13.9
Utility vehicles	47,893	47,740	59,675	65,643	72,863
Growth (%)	26.4	-2.0	25.0	10.0	11.0
Cars	180,327	167,058	232,411	412,690	564,582
Growth (%)	19.5	-7.0	39.1	77.6	36.8
Total domestic volume	526,806	527,733	627,409	854,541	1,059,059
Growth (%)	30.5	0.2	18.9	10.4	11.0
Total exports	53,474	54,659	60,276	67,185	73,838
Growth (%)	5.8	2.2	10.3	11.5	9.9
Total	**580,280**	**582,392**	**687,685**	**921,726**	**1,132,897**
Growth (%)	27.7	0.4	18.1	34.0	22.9

Per vehicle assumptions (Rs)	**FY07**	**FY08**	**FY09F**	**FY10F**	**FY11F**
Net realisation	472,064	489,901	476,087	419,540	396,418
Growth (%)	4.1	3.8	(2.8)	(11.9)	(5.5)
Contribution	144,200	142,529	135,559	119,878	112,398
Growth (%)	(0.1)	(0.1)	(0.5)	(1.2)	(0.6)
EBITDA	56,386	47,310	42,661	39,631	37,571
Growth (%)	(0.1)	(1.6)	(1.0)	(0.7)	(0.5)
Adj. PAT	32,279	26,669	18,766	17,236	16,908
Growth (%)	0.7	(1.7)	(3.0)	(0.8)	(0.2)

Source: Company data, ABN AMRO forecasts

DISCLAIMER APPENDIX

TATA MOTORS: KEY FINANCIAL DATA

Income statement

Rsm	FY07A	FY08A	FY09F	FY10F	FY11F
Revenue	273929	285314	327398	386701	449101
Cost of sales	-190253	-202307	-234176	-276206	-321766
Operating costs	-50957	-55454	-63885	-73965	-84771
EBITDA	**32719.7**	**27553.1**	**29337.2**	**36529.0**	**42564.3**
DDA & Impairment (ex gw)	-6713.1	-7166.6	-9574.1	-11794	-13570
EBITA	**26006.6**	**20386.5**	**19763.1**	**24734.9**	**28993.8**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**26006.6**	**20386.5**	**19763.1**	**24734.9**	**28993.8**
Net interest	-3130.7	-2823.7	-5882.1	-7512.4	-7868.1
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	2451.9	3444.3	3099.9	3409.9	3750.8
Reported PTP	**25327.8**	**21007.1**	**16980.8**	**20632.3**	**24876.5**
Taxation	-6597.2	-5475.5	-4075.4	-4745.4	-5721.6
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	404.5	4757.6	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**19135.1**	**20289.2**	**12905.4**	**15886.9**	**19154.9**
Normalised Items Excl. GW	404.5	4757.6	0.00	0.00	0.00
Normalised net profit	**18730.6**	**15531.6**	**12905.4**	**15886.9**	**19154.9**

Source: Company data, ABN AMRO forecasts ***year to Mar***

Balance sheet

Rsm	FY07A	FY08A	FY09F	FY10F	FY11F
Cash & market secs (1)	8267.6	5722.5	2552.7	6563.3	2556.1
Other current assets	93150.6	79135.9	68250.3	80261.8	90587.3
Tangible fixed assets	63945.8	105046	125472	123678	135107
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	24870.9	41103.2	143103	160103	170103
Total assets	**190235**	**231008**	**339378**	**370606**	**398354**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	59934.5	58549.8	77073.5	82673.0	96154.9
Long term debt (3)	40091.4	62800.0	100800	100800	100800
Oth non-current liab	21511.5	24352.5	26456.2	29194.1	31686.7
Total liabilities	**121537**	**145702**	**204330**	**212667**	**228642**
Total equity (incl min)	68697.5	85305.4	135048	157939	169712
Total liab & sh equity	**190235**	**231008**	**339378**	**370606**	**398354**
Net debt (2+3-1)	31823.8	57077.5	98247.3	94236.7	98243.9

Source: Company data, ABN AMRO forecasts ***year ended Mar***

Cash flow statement

Rsm	FY07A	FY08A	FY09F	FY10F	FY11F
EBITDA	32719.7	27553.1	29337.2	36529.0	42564.3
Change in working capital	-3774.7	-1457.9	14539.4	-912.0	6156.4
Net interest (pd) / rec	-678.8	620.6	-3942.3	-4917.5	-5052.3
Taxes paid	-4825.0	-3991.3	-2747.8	-3268.5	-3748.1
Other oper cash items	554.7	21687.3	16973.8	-2762.1	-507.4
Cash flow from ops (1)	**23996.0**	**44411.7**	**54160.3**	**24668.8**	**39412.8**
Capex (2)	-25447	-48267	-29505	-8920.0	-23800
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-6375.9	-14707	-102800	-18900	-12428
Cash flow from invest (3)	**-31822**	**-62974**	**-132305**	**-27820**	**-36228**
Incr / (decr) in equity	940.0	74.5	42196.1	13155.0	0.00
Incr / (decr) in debt	10723.0	22708.6	38000.0	0.00	0.00
Ordinary dividend paid	-6763.2	-6766.2	-5221.3	-5993.6	-7192.3
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**4899.8**	**16016.9**	**74974.9**	**7161.4**	**-7192.3**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-2926.7**	**-2545.1**	**-3169.9**	**4010.6**	**-4007.2**
Equity FCF (1+2+4)	-1450.6	-3855.1	24655.3	15748.8	15612.8

Lines in bold can be derived from the immediately preceding lines. ***year to Mar***
Source: Company data, ABN AMRO forecasts

TATA MOTORS: PERFORMANCE AND VALUATION

Standard ratios

Performance	Tata Motors FY07A	FY08A	FY09F	FY10F	FY11F	Ashok Leyland FY09F	FY10F	FY11F	Maruti Suzuki India FY09F	FY10F	FY11F
Sales growth (%)	33.0	4.16	14.7	18.1	16.1	10.1	11.3	13.4	15.1	19.9	17.0
EBITDA growth (%)	26.8	-15.8	6.48	24.5	16.5	4.95	14.1	14.1	9.62	18.4	15.9
EBIT growth (%)	31.0	-21.6	-3.06	25.2	17.2	1.85	9.20	10.9	10.5	13.9	14.5
Normalised EPS growth (%)	36.2	-17.1	-16.9	23.1	20.6	3.89	8.96	9.62	10.6	11.6	14.1
EBITDA margin (%)	11.9	9.66	8.96	9.45	9.48	9.78	10.0	10.1	13.9	13.7	13.6
EBIT margin (%)	9.49	7.15	6.04	6.40	6.46	7.37	7.23	7.07	11.0	10.5	10.2
Net profit margin (%)	6.84	5.44	3.94	4.11	4.27	5.33	5.22	5.05	8.69	8.09	7.89
Return on avg assets (%)	11.8	8.26	5.89	5.87	6.33	8.54	7.93	7.66	12.0	11.6	11.5
Return on avg equity (%)	30.2	20.2	11.7	10.8	11.7	20.0	19.8	19.6	19.8	18.6	18.0
ROIC (%)	21.6	12.4	8.61	6.71	7.26	13.5	11.2	10.4	35.3	29.7	26.6
ROIC - WACC (%)	9.07	-0.14	-3.97	-5.87	-5.31	0.45	-1.80	-2.62	22.1	16.5	13.4
					year to Mar			*year to Mar*			*year to Mar*
Valuation											
EV/sales (x)	0.83	0.89	0.90	0.75	0.66	0.63	0.62	0.58	0.80	0.66	0.54
EV/EBITDA (x)	6.98	9.20	10.0	7.96	6.93	6.48	6.20	5.79	5.79	4.81	3.97
EV/EBITDA @ tgt price (x)	6.57	8.71	9.59	7.59	6.61	8.63	8.08	7.44	8.20	6.84	5.73
EV/EBIT (x)	8.78	12.4	14.9	11.8	10.2	8.61	8.60	8.27	7.30	6.30	5.27
EV/invested capital (x)	2.11	1.67	1.21	1.10	1.05	1.40	1.28	1.19	2.88	2.22	1.77
Price/book value (x)	3.90	3.14	1.98	1.70	1.58	1.75	1.58	1.43	2.13	1.80	1.53
Equity FCF yield (%)	-0.54	-1.44	9.20	5.88	5.83	-9.99	-5.24	-2.32	2.18	2.86	4.87
Normalised PE (x)	14.3	17.3	20.8	16.9	14.0	9.16	8.41	7.67	11.7	10.5	9.20
Norm PE @tgt price (x)	13.3	16.1	19.3	15.7	13.0	13.1	12.0	11.0	15.6	13.9	12.2
Dividend yield (%)	2.94	2.94	1.77	1.96	2.35	4.81	5.13	5.45	0.74	0.84	0.91
					year to Mar			*year to Mar*			*year to Mar*

Per share data	FY07A	FY08A	FY09F	FY10F	FY11F
Tot adj dil sh, ave (m)	525.8	525.8	525.8	525.8	525.8
Reported EPS (INR)	36.4	38.6	24.5	30.2	36.4
Normalised EPS (INR)	35.6	29.5	24.5	30.2	36.4
Dividend per share (INR)	15.0	15.0	9.00	10.0	12.0
Equity FCF per share (INR)	-2.76	-7.33	46.9	30.0	29.7
Book value per sh (INR)	130.7	162.3	256.9	300.4	322.8
					year to Mar

Solvency	FY07A	FY08A	FY09F	FY10F	FY11F
Net debt to equity (%)	46.3	66.9	72.7	59.7	57.9
Net debt to tot ass (%)	16.7	24.7	28.9	25.4	24.7
Net debt to EBITDA	0.97	2.07	3.35	2.58	2.31
Current ratio (x)	1.69	1.45	0.92	1.05	0.97
Operating CF int cov (x)	43.5	-77.0	15.4	6.68	9.54
Dividend cover (x)	2.77	2.30	2.41	2.58	2.59
					year to Mar

Priced as follows: TAMO.BO - Rs509.75; ASOK.BO - Rs31.20; MRTI.BO - Rs741.50
Source: Company data, ABN AMRO forecasts

TATA MOTORS: VALUATION METHODOLOGY

Table 9 : SOTP valuation

Stand-alone business		**3-stage DCF**		**333**	
Subsidaries	**Peer set**	**Peer set valuation**	**Valuation multiple**	**Value/share**	**Comment**
Tata Daewoo	Ashok Leyland	9x FY09F PE	9.0	30.7	In line valuation
Jaguar Land Rover	BMW	2.7x CY08F EV/EBITDA Automotive division	2.5	52.7	Marginal discount for the relatively smaller size of operations
Telco Construction	BEML	15.2x FY09F PE	13.0	56.6	Discount valuation for relatively small scope of its operations
HV Axles	Automotive Axles	11.7x FY09F PE	6.0	6.1	Discount valuation for relatively small scope of its operations
HV Transmisions	Automotive Axles	11.7x FY09F PE	6.0	4.8	Discount valuation for dependence on Tata Motors
Tata Technologies	Geometric Ltd.	6.6x FY09F PE	8.0	5.8	Premium valuation for its wide spectrum of operations
TACO	Bharat Forge	15.5x FY09F PE consolidated	10.0	4.7	Discount valuation as it's diverisified and yet to make global footprint
Tata Cummins	Cummins India	14.5x FY09F PE	12.0	7.6	Discount valuation for dependence on Tata Motors
TML Financial Services	Shriram Transport Finance	11.4x FY09F PE	8.0	8.3	Discount valuation for dependence on Tata Motors
Sub Total				177.2	
Subsidiary value post 20% holding company discount			141.7		
Target price based on SOTP				474.7	

Source: ABN AMRO estimates, Bloomberg for peer set

Tata Motors

Company description — Hold

Tata Motors is the largest commercial vehicle manufacturer in India, and one of the three largest car manufacturers in the country. Low product-development and manufacturing costs together with a deep understanding of its Indian customers are the company's key advantages. Tata Motors has been looking at expansion into international markets and has already acquired the Daewoo CV business and Hispano Carrocera's bus business. With the recent acquisition of Jaguar and Land Rover (JLR), it is now a full-fledged global car company with nearly 75% of sales coming from car sales. Being a strong player in India provides Tata Motors with the cash flow for its expansion plans in cars and to upgrade its entire product portfolio by 2010.

Price relative to country

Strategic analysis — Average SWOT company score: 2

Strengths — 3
Fully integrated automobile major in India, with very low-cost product-development capabilities. It is the leader in the commercial vehicles segment in India and one of the country's top three car manufacturers. With the JLR acquisition, it will expand into global premium cars.

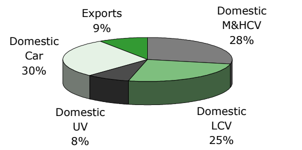
Weaknesses — 2
The large JLR acquisition leaves limited room to restructure operating parameters in the short term, especially amidst rising input material costs and weakening demand.

Opportunities — 2
JLR's wide distribution network and strong R&D capability may extend an opportunity to Tata Motors to shorten its product lifecycles and achieve global economies of scale in the medium term.

Threats — 2
Increasing threat of competition from the entry of international truck majors and the expansion of existing international car majors into the voluminous B&C car segment in India. The high debt:equity ratio can spoil profitability if weakness in global vehicle demand is sustained.

Scoring range is 1-5 (high score is good)

FY08 sales volume breakup



Source: Company data

Market data

Headquarters
Bombay House 24 Homi Mody Street
Mumbai - 01

Website
www.tatamotors.com

Shares in issue
385.5m

Freefloat
67%

Majority shareholders
Tata Group Cos (33%), LIC (9%), Daimler Chrysler (7%)

India

Country view — Overweight

We expect Indian growth to remain robust in 2008, driven by domestic demand due to the rise in wages and farm incomes. We see a structural growth story emerging in real estate and agriculture, in line with the government's 11th five-year development plan of redistributing income beyond the city centres. We remain selective buyers of consumer discretionary and consumer staples, especially in upstream industries such as cold chain, agri-businesses and organised retail. We think the IT sector is also worth a fresh look as valuations look increasingly undemanding at present levels and major players have demonstrated an ability to protect their margins.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 3+

Supplier power — 3+
Most suppliers are largely dependent on the company and have low bargaining power. However, with component vendors exploring export opportunities, their dependence may decrease.

Barriers to entry — 3+
All the leading car manufacturers are already present in India. In CVs, the company's low-cost product-development and manufacturing capabilities form the most significant entry barrier.

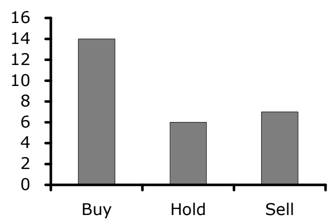
Customer power — 2-
Customer supremacy is established in the car market. CV is still an oligopolistic market, although this is changing, with some niche players exploring different segments.

Substitute products — 3+
Railways pose a threat to the commercial vehicles industry. There is price elasticity in line with demand, which results in shifts between railways and trucks.

Rivalry — 2-
The entry of international CV majors such as MAN, Navistar and Isuzu may sharply increase competition in the medium term. In cars, competition continues to rise.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg