# Tata Motors

## 1QFY2010 Consolidated Result Update

## NEUTRAL

| | |
|---|---|
| **Price** | **Rs518** |
| **Target Price** | **-** |
| **Investment Period** | **-** |

**Stock Info**

| | |
|---|---|
| Sector | Automobile |
| Market Cap (Rs cr) | 26,633 |
| Beta | 1.2 |
| 52 WK High / Low | 524/122 |
| Avg Daily Volume | 1077768 |
| Face Value (Rs) | 10 |
| BSE Sensex | 15,551 |
| Nifty | 4,625 |
| BSE Code | 500570 |
| NSE Code | TATAMOTORS |
| Reuters Code | TAMO.BO |
| Bloomberg Code | TTMT@IN |

**Shareholding Pattern (%)**

| | |
|---|---|
| Promoters | 46.7 |
| MF/Banks/Indian FIs | 18.4 |
| FII/ NRIs/ OCBs | 24.6 |
| Indian Public | 10.3 |

| Abs. | 3m | 1yr | 3yr |
|---|---|---|---|
| Sensex (%) | 4.8 | 7.3 | 32.0 |
| Tata Motors (%) | 53.2 | 22.1 | (38.1) |

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## Performance Highlights

- **Jaguar Land Rover compels Net Loss of Rs329cr:** Tata Motors (TML) reported consolidated Net Sales of Rs16,397cr (Rs14,490cr) in 1QFY2010. The 1QFY2010 consolidated financial performance of the company is not comparable to 1QFY2009, on account of the acquisition of Jaguar Land Rover (JLR) in June 2008. For 1QFY2010, the company reported Net Loss of Rs329cr (Net Profit of Rs720cr in 1QFY2009) on a consolidated basis. This was mainly due to the poor performance registered by the company's UK subsidiary, which owns the JLR marquee brands.

- **JLR reports Net Loss of £64mn:** JLR posted a Loss of £64mn ie. Rs512cr for the quarter. JLR's combined Sales (for June 2008-March 2009) fell 52% to 35,900 units (around 74,792 units in the same period last year). However, Volumes for 1QFY2010 registered decent recovery on a sequential basis and grew by around 10% over 4QFY2009. JLR recorded Top-line of around £1,125mn and Operating Loss of around £45mn.

- **JLR to break even on Operating front in FY2011E:** We expect FY2010E to be a difficult year for TML, as its JLR operations are not showing any signs of recovery. We have modeled around 4% yoy decline in JLR's volumes to 160,608 units in FY2010E albeit followed by around 15% increase in FY2011E. We expect JLR to break even at the EBITDA level in FY2011E, as TML has already initiated product rationalisation and cost cutting measures at JLR.

- **Subsidiaries reel under pressure due to slowdown:** Other key subsidiaries of TML combined recorded 17.9% yoy decline in Net Sales to around Rs1,600cr (Rs1,950cr) in 1QFY2010. As a result, combined the Subsidiaries recorded a substantial 98.3% yoy decline in Net Profit for the quarter to Rs2.4cr (Rs138.8cr).

- **Consolidated Debt substantially high:** TML's total Debt stands at almost Rs33,850cr. Of this, aggregate long-term Debt is around Rs16,302cr – 50% of which has to be repaid over FY2010-11E. TML's consolidated Net Worth as on March 31, 2009 was valued at around Rs5,316cr. Thus, TML's consolidated Debt-Equity ratio is at around 5.8x (including vehicle finance debt), which we believe is substantially high.

**Key Financials – (Consolidated, including J&LR)**

| Y/E March (Rs cr) | FY2008 | FY2009 | FY2010E | FY2011E |
|---|---|---|---|---|
| **Net Sales** | **35,422** | **70,429** | **74,488** | **84,990** |
| *% chg* | *10.5* | *98.8* | *5.8* | *14.1* |
| **Net Profit** | **2,054** | **(3,065)** | **(792)** | **1,241** |
| *% chg* | *(3.4)* | *(249.2)* | *(74.2)* | *(256.8)* |
| OPM (%) | 11.1 | 1.3 | 4.7 | 6.3 |
| **FDEPS (Rs)** | **53.3** | **(59.6)** | **(15.4)** | **24.1** |
| P/E (x) | 9.7 | - | - | 21.5 |
| P/BV (x) | 2.3 | 4.6 | 5.4 | 4.8 |
| RoE (%) | 25.8 | - | - | 22.2 |
| RoCE (%) | 14.5 | - | 1.5 | 5.6 |
| EV/Sales (x) | 0.9 | 0.8 | 0.8 | 0.7 |
| EV/EBITDA (x) | 8.7 | 61.1 | 17.3 | 11.4 |

*Source: Company, Angel Research; Note: The company's FY2009 consolidated financial performance is not comparable to FY2008 on account of the acquisition of JLR in June 2008.*

### Analyst Conference Call - Key Highlights

JLR's wholesale volumes improved on a sequential basis by over 10%, while retail volumes remained flat; North America and Europe (excluding Russia) registered growth. On a yoy basis, retail volumes fell 35% yoy while wholesale volumes declined by 52% yoy. Over the past two quarters, the company has substantially cleared dealer inventory and in 3QFY2010 expects wholesale and retail volumes to converge.

**Exhibit 1: JLR – Retail Sales Volume**

| Retail Sales (in '000) | North America | UK | Europe (Ex Russia) | Russia | China | Total |
|---|---|---|---|---|---|---|
| 1QFY2010 | 10.4 | 10.7 | 12.6 | 2.1 | 3.2 | 39 |
| 4QFY2009 | 9.4 | 14 | 11.2 | 3.4 | 2.1 | 40.1 |
| *% yoy chg* | *10.6* | *(23.6)* | *12.5* | *(38.2)* | *52.4* | *(2.7)* |

*Source: Company, Angel Research*

### Transition from Ford

JLR is currently in the process of establishing operations in markets where it had previously operated as part of Ford legal entities. This transition is progressing to plan with 15 markets successfully transiting since the acquisition. All markets except Singapore have already transited. Major markets that have transitioned include USA, Canada, South Africa, France, Brazil, China and Russia. All the markets are due to be transitioned by November 30, 2009.

Ford Credit provided dealer/customer financing support during the first 12 months post the acquisition. JLR has now transitioned to financing arrangements with FGA Capital (JV between Fiat Auto and Credit Agricole) in the UK and Europe and Chase Auto Finance in the US and local providers in certain other key markets.

### Funding arrangements

Till June 2009 this year, the company's Cash flow from financing activities was £150mn, which comprised £50mn of financing provided to JLR by the parent company and additional borrowings of £100mn from other sources. Since March 2009, JLR secured or had credit approval for further financing, which together with those already in place will help meet the company's forecasted present requirements. This includes the European Investment Bank approved funding of £340mn, which can be accessed in the near future through appropriate commercial arrangements. Given the above together with the positive trend in the external environment in financial markets and improvement in general liquidity, these arrangements have been and are expected to be concluded without necessitating guarantees from the UK Government, for which discussions had been ongoing for some time now.

### Pension's revaluation

Initial results of the revaluation, as at April 2009, are expected to be available in September 2009 post which a revised contribution pattern would be discussed with the Pension Trustees.

Legislation requires a valuation process including agreement on a revised contribution pattern to be completed by early July 2010. As per audited financial statements, as of March 31, 2009, the UK Jaguar and LandRover pension schemes have a projected benefit obligation of around £3bn and Fair Value of Plan Assets of around £3.1bn.

### New launches

In 2009 till date, the company has already launched the new *XF* and *XKR* including the new power train (in January 2009), all new XFR (in January 2009), new Freelander with start-stop technology and upgrades of Range Rover, Range Rover Sports and Discovery (in April 2009). It also plans to launch the all new *XJ* in July, a new small Range Rover (LRX concept).

### Cost Rationalisation initiatives at JLR

- Single shifts and down time at all three UK assembly plants.
- Labour actions – targeting 2,000 agency and permanent reductions during May 2008 – December 2009.
- Agreement with Unions to implement pay freeze and longer working hours, which coupled with the above-mentioned labour actions is equivalent to approximately 20% reduction in labour costs.
- Engineering and capital spending efficiencies.
- Fixed marketing and selling costs reduced in line with sales volume.
- Reduction in all other non-personnel related overhead costs.

We believe that JLR volume growth would be capped in the medium term owing to the significantly weakened market conditions, especially in the US and UK. We believe that TML's operations will continue to face challenging times for a few more quarters. However, TML has accelerated measures to reduce costs and increase operational efficiency through product rationalisation, lowering its production and inventory through shift cut backs, extended breaks to employees and a significant reduction in headcount during the year. Thus, we expect JLR to break even at the EBITDA level in FY2011E.

**Exhibit 2: JLR - Income Statement**

| (Pound mn) | 1QFY2010 | 2008 (June 08-March 09) | FY2010E | FY2011E |
|---|---|---|---|---|
| Volume | 35,900 | 167,300 | 160,608 | 184,699 |
| Realisation (Pounds) | 31,337 | 29,582 | 29,582 | 30,469 |
| **Net Sales** | **1,125** | **4,949** | **4,751** | **5,628** |
| Other Income | 0 | 24 | 24 | 24 |
| Total Income | 1,125 | 4,973 | 4,775 | 5,652 |
| **Total Expenditure** | **1,170** | **5,064** | **4,846** | **5,503** |
| Raw Material | 813 | 3,164 | 3,041 | 3,545 |
| *% to Sales* | *72.3* | *63.9* | *64.0* | *63.0* |
| Staff Cost | 176 | 569 | 523 | 495 |
| *% to Sales* | *15.6* | *11.5* | *11.0* | *8.8* |
| Other Exp. | 170 | 1,282 | 1,235 | 1,407 |
| *% to Sales* | *15.1* | *25.9* | *26.0* | *25.0* |
| Product development Cost | 11 | 39 | 38 | 45 |
| *% to Sales* | *1.0* | *0.8* | *0.8* | *0.8* |
| Amortisation | 0 | 10 | 10 | 10 |
| *% to Sales* | - | *0.2* | *0.2* | *0.2* |
| **Operating Profit** | **(45)** | **(115)** | **(95)** | **125** |
| **Operating Profit (Incl Other Inc.)** | **(45)** | **(91)** | **(71)** | **149** |
| Interest | 13 | 31 | 40 | 40 |
| Gross Profit | (58) | (122) | (111) | 109 |
| Depreciation | 69 | 159 | 159 | 159 |
| Notional Forex gain / (loss) | 65 | - | - | - |
| **PBT** | **(62)** | **(281)** | **(270)** | **(50)** |
| Tax | 2 | 25 | 25 | 25 |
| **PAT** | **(64)** | **(306)** | **(295)** | **(75)** |

*Source: Company, Angel Research*

## Outlook and Valuation

We believe that FY2009-10E will be difficult years for TML due to the overall economic and commercial vehicle (CV) growth slowdown. However, the recent rebound in economic factors and the cut in Interest rates raise few rays of hope. We believe that, by end 3QFY2010E, the CV Auto Finance rates will also trend downwards, which could help TML report better volume growth 2HFY2010 onward. TML also has plans to incur additional capex of Rs2,500-3,000cr every year hereon, with a focus on product development. It is also concentrating on new launches to de-leverage its product portfolio. We believe that FY2010E will be a year of recovery for TML's standalone business, due to overall glimmers of improvement in economic parameters. However, JLR's key European and US markets have deteriorated materially in recent months, and are expected to remain weak at least over the next 2-3 quarters, which can continue to drag TML's consolidated performance for some time.

We estimate TML to record a Net Loss in FY2010E and expect a recovery in FY2011E, on a consolidated basis. At the CMP of Rs518, on a consolidated basis, the stock is trading at 21.5x FY2011E Earnings and 4.8x FY2011E P/BV. We believe that the JLR weakness will continue. Hence, we are valuing the stock on the sum-of-the-parts (SOTP) methodology, and have arrived at a Fair Price of Rs520. We have valued the Core business at 8.6x FY2011E EV/EBITDA and at 13.5x FY2011E P/E, which works out to Rs463. Our embedded value of the Subsidiaries and Investments in TML's books (including JLR) works out to Rs57 per share. **Considering the sharp run up in the stock price of TML in the last two weeks, we recommend a Neutral view on the stock. However, investors can enter the stock at lower levels to play out the turn in the economic and CV cycles, since we believe that recovery in the CV cycle would gain momentum in 2HFY2010E.**

**Exhibit 3: 1QFY2010 Performance (Consolidated)**

| Y/E Mar (Rs cr) | 1QFY2010 | 1QFY2009 | *% chg* | FY2009 | FY2008 | *% chg* |
|---|---|---|---|---|---|---|
| **Net Sales** | **16,397** | **14,490** | ***13.2*** | **70,429** | **35,422** | ***98.8*** |
| Other Income | 321 | 251 | | 1,607 | 849 | |
| Total Income | 16,718 | 14,741 | *13.4* | 72,037 | 36,271 | *98.6* |
| EBITDA | 503 | 1,683 | *(70.1)* | 941 | 3,932 | *(76.1)* |
| OPM (%) | 3.1 | 11.6 | | 1.3 | 11.1 | |
| Interest | 584 | 324 | | 2,171 | 913 | |
| Depreciation | 844 | 359 | *135.1* | 2,507 | 782 | *220.5* |
| Profit Before Tax | (604) | 1,250 | *(148.3)* | (2,129) | 3,086 | *(169.0)* |
| Tax | 64 | 112 | | 336 | 852 | |
| **Adj. Profit After Tax** | **(329)** | **720** | ***(145.7)*** | **(3,065)** | **2,054** | ***(249.2)*** |
| **Adj. EPS (Rs)** | **(6.4)** | **14.0** | | **(79.6)** | **53.3** | |

*Source: Company, Angel Research*

**Exhibit 4: Key Subsidiaries Performance** **(Rs cr)**

| Key Subsidiaries (Rs cr) | Q1FY2010 | | | | Q1FY2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Revenue | EBITDA | *OPM (%)* | Net Profit | Revenue | EBITDA | *OPM (%)* | Net Profit |
| Tata Daewoo | 667 | 40 | *6* | 18 | 810 | 76 | *9* | 46 |
| TELCON | 390 | (1) | *(0)* | (0) | 578 | 108 | *19* | 68 |
| Tata Tech. | 246 | 14 | *6* | 5 | 277 | 12 | *4* | 10 |
| Tata M. finance | 214 | 35 | *16* | (37) | 185 | 66 | *36* | (9) |
| HV Transmissions | 39 | 20 | *51* | 7 | 48 | 24 | *50* | 11 |
| HV Axles | 44 | 25 | *57* | 10 | 52 | 29 | *56* | 13 |
| Total | 1,600 | 133 | *8* | 2 | 1,950 | 315 | *16* | 139 |

*Source: Company, Angel Research*

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| Ratings (Returns) : | Buy (Upside > 15%) | Accumulate (Upside upto 15%) | Neutral (5 to -5%) |
|---|---|---|---|
| | Reduce (Downside upto 15%) | Sell (Downside > 15%) | |