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Tata Motors

2QFY2010 Consolidated Result Update

ACCUMULATE

Price	**Rs661**
Target Price	**Rs719**
Investment Period	**12 Months**

Stock Info

Sector	Automobile
Market Cap (Rs cr)	35,965
Beta	1.3
52 WK High / Low	666/125
Avg Daily Volume	1237311
Face Value (Rs)	10
BSE Sensex	16,926
Nifty	5,033
BSE Code	500570
NSE Code	TATAMOTORS
Reuters Code	TAMO.BO
Bloomberg Code	TTMT@IN

Shareholding Pattern (%)

Promoters	40.6
MF/Banks/Indian FIs	18.6
FII/ NRIs/ OCBs	30.6
Indian Public	10.2

Abs.	**3m**	**1yr**	**3yr**
Sensex (%)	6.3	86.2	23.6
Tata Motors (%)	35.0	384.7	(14.7)

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Performance Highlights

- **Tata Motors' consolidated Bottom-line back in the green:** Tata Motors (TML) reported consolidated Net Sales of Rs21,100cr (Rs22,991cr) in 2QFY2010. The company has shown a good recovery in 2QFY2010, and reported a Net Profit of Rs22cr (Net Loss of Rs942cr in 2QFY2009) on a consolidated basis. This was mainly due to the good performance registered by the company's key subsidiary companies, including JLR. On a sequential basis too, the company registered a substantial 28.2% qoq jump in Net Sales and a 407bp increase in Operating Profit Margins. This is owing to the decline in Raw Material prices and aggressive cost-cutting measures taken by the company in its domestic and overseas operations.
- **JLR reports a Net Loss of £61mn:** JLR posted a Loss of £61mn (Rs488cr) for the quarter. JLR's combined Wholesale Volume for 2QFY2010 increased 23.3% qoq to 44,305 units (around 35,947 units in 1QFY2010). However, Retail Volumes for 2QFY2010 registered a marginal decline of about 1% qoq on a sequential basis over 1QFY2010. JLR recorded a Top-line of around £1,420mn and an Operating Profit of around £32mn. This was largely supported by a good growth in volume and around a 2.4% qoq increase in Realisations. A Shift in the product mix towards higher margin vehicles as well as a reduction in discounts or subventions on newer product launches led to better average realisations qoq. However, staff costs grew qoq, owing to one-time charges of £11mn in 2QFY2010.
- **Subsidiaries showing good recovery:** The other key subsidiaries of TML combined recorded a 31.9% yoy jump in Net Sales to around Rs2,193cr (Rs1,663cr) in 2QFY2010. As a result of the increase in Net Sales and improved operating leverage, the combined Subsidiaries recorded a substantial 178.6% yoy increase in Net Profit for the quarter to Rs78cr (Rs28cr). On a sequential basis also, the Net Sales and Net Profit of these subsidiaries reported an increase of 37% qoq and 3,191% qoq, respectively.
- **High Consolidated Net Debt:** TML's total Net Debt on a consolidated level stands at almost Rs22,745cr. Of this, the 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 Net Debt to Equity ratio is at around 4.1x, which we believe is still substantially high.

Key Financials – (Consolidated, including J&LR)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	**35,422**	**70,429**	**81,110**	**91,727**
% chg	*10.5*	*98.8*	*15.2*	*13.1*
Adj. Net Profit	**2,054**	**(3,065)**	**(63)**	**2,292**
% chg	*(3.4)*	*(249.2)*	-	-
OPM (%)	11.1	1.3	4.7	7.6
Adj. DEPS (Rs)	**53.3**	**(59.6)**	**(1.2)**	**42.1**
P/E (x)	12.4	-	-	15.7
P/BV (x)	2.9	5.8	-	3.8
RoE (%)	25.8	-	-	24.3
RoCE (%)	14.5	-	2.0	9.0
EV/Sales (x)	1.0	0.9	0.8	0.7
EV/EBITDA (x)	10.6	68.9	17.1	9.5

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 23.3%, while retail volumes remained flat. UK and China registered a growth in retail volumes, on a sequential basis, showing early signs of recovery. Over the past two quarters, the company has substantially cleared dealer inventory, and expects wholesale and retail volumes to converge in 3QFY2010. Overall, the demand environment for JLR has stabilised.

Exhibit 1: JLR – Retail Sales Volume

Retail Sales (in '000)	North America	UK	Europe (ex-Russia)	Russia	China	Total
2QFY2010	**9.6**	**14.4**	**10.3**	**2.1**	**3.4**	**39.8**
Jaguar	**2.8**	**4.8**	**2.3**	**0.2**	**0.5**	**10.6**
Land Rover	**6.8**	**9.6**	**8**	**1.9**	**2.9**	**29.2**
1QFY2010	**10.4**	**10.7**	**12.7**	**2.1**	**3.3**	**39.2**
Jaguar	**3.7**	**4.5**	**3.6**	**0.2**	**0.4**	**12.4**
Land Rover	**6.7**	**6.2**	**9.1**	**1.9**	**2.9**	**26.8**
% qoq ch	*(7.7)*	*34.6*	*(18.9)*	*0.0*	*3.0*	*1.5*

Source: Company, Angel Research

Funding arrangements

In the period to September 2009, the cash flow from financing activities was £258mn, primarily reflecting loans worth £175mn from the State Bank of India and from other sources. Since September 2009, JLR has completed a finished vehicle inventory facility with GE Capital, with an underwritten limit of US $125mn, and an additional US $125mn on a non-underwritten basis. JLR is in the process of finalising guarantee arrangements to access a £340mn loan approved by the EIB.

Pension revaluation

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

The Pensions' revaluation process is underway and is not due to be completed until early July 2010, in line with legislation. As per financial statements as of September 30, 2009, the UK Jaguar and Land Rover pension schemes have a projected benefit obligation of about £3.9bn and Fair Value of Plan Assets of about £3.6bn

New launches

In 2009, till date, the company has already launched the new *XF* and *XKR,* including the new power train (in January 2009), the all new *XFR* (in January 2009), the 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-car).

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 a pay freeze and longer working hours, which, coupled with the above-mentioned labour actions, is equivalent to approximately a 20% reduction in labour costs.
- Engineering and capital spending efficiencies.
- Fixed marketing and selling costs reduced in line with the sales volume.
- Reduction in all other non-personnel-related overhead costs.

We believe that JLR's volumes would show a sequential recovery in the medium term and estimate it to record a volume of 174,252 units in FY2010E. We believe that TML's operations will improve in the next few quarters. This is on the back of accelerated measures taken by the company to reduce costs and to 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 PAT level in FY2011E, as TML has already initiated product rationalisation and cost-cutting measures at JLR. JLR is targeting to bring down its break-even levels to 60-65% in a year and even further down in the future.

Exhibit 2: JLR Income Statement

(Pound mn)	2QFY2010	1QFY2010	FY2010E	FY2011E
Volume	44,305	35,947	172,252	191,200
Net Sales	**1,420**	**1,125**	**5,513**	**6,326**
Other Income	-	-	-	-
Total Income	1,420	1,125	5,513	6,326
Total Expenditure	**1,388**	**1,170**	**5,380**	**5,934**
Raw Material	987	813	3,848	4,286
% to Sales	*69.5*	*72.3*	*69.8*	*68.0*
Staff Cost	187	176	746	756
% to Sales	*13.2*	*15.6*	*13.5*	*12.0*
Other Exp.	205	170	735	832
% to Sales	*14.4*	*15.1*	*13.3*	*13.2*
Product development Cost	9	11	42	50
% to Sales	*0.6*	*1.0*	*0.8*	*0.8*
Amortisation	0	0	10	10
% to Sales	-	-	*0.2*	*0.2*
Operating Profit	**32**	**(45)**	**132**	**368**
Operating Profit (Incl Other Inc.)	**32**	**(45)**	**132**	**392**
Interest	10	13	55	50
Gross Profit	22	(58)	77	342
Depreciation	58	69	277	280
Notional Forex gain / (loss)	(16)	65	49	-
PBT	**(52)**	**(62)**	**(151)**	**62**
Tax	9	2	25	26
PAT	**(61)**	**(64)**	**(176)**	**36**

Source: Company, Angel Research

Exhibit 3: 2QFY2010 Performance (Consolidated)

Y/E Mar (Rs cr)	2QFY2010	2QFY2009	% chg	1HFY2010	1HFY2009	% chg
Net Sales	21,100.2	22,991.4	*(8.2)*	37,497.2	37,481.5	*0.0*
Other Income	406.7	425.9		727.8	676.4	
Total Income	21,506.9	23,417.3	*(8.2)*	38,225.0	38,157.9	*0.2*
EBITDA	1,505.9	1,405.9	*7.1*	2,008.8	3,089.2	*(35.0)*
OPM (%)	7.1	6.1		5.4	8.2	
Interest	559.0	595.2		1,142.6	919.6	
Depreciation	847.9	646.7	*31.1*	1,692.2	1,005.8	*68.2*
Profit Before tax	505.6	589.9	*(14.3)*	(98.2)	1,840.2	*(105.3)*
Tax	289.4	87.3		353.7	199.7	
Adj. Profit After tax	21.8	(941.8)	-	(307.0)	(222.1)	*38.3*
Adj. EPS (Rs)	0.4	(17.3)		(5.6)	(4.1)	

Source: Company, Angel Research

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

Key Subsidiaries (Rs cr)	Q2FY2010				Q2FY2009			
	Revenue	EBITDA	*OPM*	Net Profit	Revenue	EBITDA	*OPM*	Net Profit
Tata Daewoo	783	47	*6*	19	653	42	*6*	19
TELCON	702	79	*11*	(11)	489	7	*1*	(11)
Tata Tech.	316	21	*7*	25	269	29	*11*	25
Tata M. finance	289	16	*6*	21	172	(50)	*(29)*	(13)
HV Transmissions	49	26	*53*	11	38	14	*37*	4
HV Axles	54	29	*54*	13	42	15	*36*	4
Total	2,193	218	*10*	78	1,663	57	*3*	28

Source: Company, Angel Research

Outlook and Valuation

We believe that FY2010 will be a year of recovery for TML's standalone business, due to overall glimmers of improvement in the economy. The cut in Interest rates and overall improvement in the financing scenario are expected to help TML report a better Volume growth in 2HFY2010. Our estimates for TML factor in an 18% CAGR in CV Volumes over FY2009-11E. Following the recovery in its core business, TML's key subsidiaries (linked to the fortunes of CVs) are also expected to show a good turnaround. Moreover, with the positive trend in the external environment (in financial markets and the improvement in general liquidity), TML has partially met its overall funding requirements (including JLR) at reasonable terms. Further, an anticipated full recovery in the domestic CV cycle in FY2011E is expected to reduce the pressure on cash flows and to facilitate debt repayment. JLR is also showing early signs of recovery in its key markets in recent months. We expect that an improvement in volumes, due to the launch of new products in 4QFY2010, would help JLR in showing reasonable volume growth in FY2011E and enable it to turn into the black on the Bottom-line front.

Exhibit 5: SOTP Valuation

Particulars	Parameter	Multiple (x)	Value/Share (Rs)
TML (Standalone)	FY2011E P/E	14	539
JLR	FY2011E PAT	12	64
Key Subsidiaries and Others	-	-	116
Fair Value (Rs)			**719**

Source: Company, Angel Research

We estimate TML to record a Net Loss in FY2010E, but expect a recovery in FY2011E on a consolidated basis. At the CMP of Rs661, on a consolidated basis, the stock is trading at 15.7x FY2011E Earnings and 3.8x FY2011E P/BV. **We value the stock on the sum-of-the-parts (SOTP) methodology and maintain an Accumulate, with a Target Price of Rs719. We have valued the Core business at Rs539, which is 8.5x FY2011E EV/EBITDA and 14x FY2011 P/E. Our embedded value of the subsidiaries and investments in TML's books (including JLR) works out to Rs180 per share.**

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Ratings (Returns):	**Buy (> 15%)**	**Accumulate (5% to 15%)**	**Neutral (-5% to 5%)**
	Reduce (-5% to -15%)	**Sell (< -15%)**	