investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aurobindo	28-May-07	684	**785**	914
BASF	18-Sep-06	220	**264**	300
JP Associates	30-Dec-03	125	**735**	850
UltraTech	10-Aug-05	384	**820**	935
Zensar Tech	18-Jun-07	342	**340**	484

Tata Motors

Apple Green

Stock Update

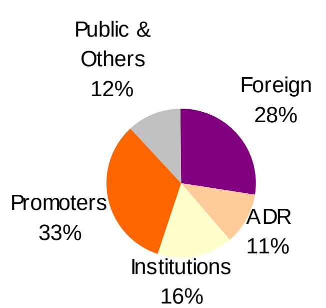
Annual report review

Buy; CMP: Rs685

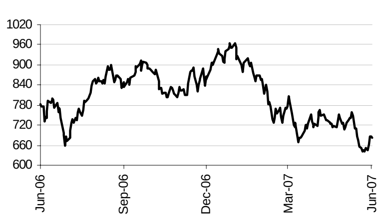
Company details

Price target:	Rs792
Market cap:	Rs26,398 cr
52 week high/low:	Rs975/635
NSE volume: (No of shares)	15.1 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Sharekhan code:	TELCO
Free float: (No of shares)	21.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.3	-9.7	-19.0	-6.5
Relative to Sensex	-4.2	-19.8	-25.8	-36.3

We have analysed the recently released annual report of Tata Motors (TAMO) and present the highlights below.

Key points

- TAMO had a good FY2007, registering a 32.3% growth in its top line and a 37.5% growth in its bottom line. The medium and heavy commercial vehicle (M&HCV) sales volumes picked up splendidly during the year, led by a strong growth in the freight availability and the Supreme Court's ban on the overloading of trucks. The light commercial vehicle (LCV) volumes sustained their growth momentum as *Ace* continued to do well while passenger car volumes remained strong on the back of good *Indica* sales.
- The company continued to make progress towards improving its operational efficiencies as its turnover per employee rose to Rs73 lakh against Rs68 lakh in FY2006. The return ratios remained stable with the return on capital employed (RoCE) at 29.9% and return on net worth (RoNW) at 27.1%. The debtor days reduced to 10.5 days while the inventory days too reduced to 33.7 days from 35.8 days.
- The company has a capital expenditure (capex) plan of Rs12,000 crore for the next four years. The funds shall be spent towards new product development and capacity expansion. To part finance the activities, the company has recently announced the issue of five-year foreign currency convertible alternative reference securities (CARS) aggregating to $490 million, including a green-shoe option of $40 million. The same will be convertible at the option of the company into depository receipts or ordinary shares at a price of Rs960.96 per share. At that price, it would lead to a dilution of 5% over its current diluted equity.
- The company maintains its optimism towards the automobile sector, considering the strong macro factors. However the growth during the current year is expected to be lower in comparison to that in the previous year as the same shall be

Valuation table

Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Stand-alone					
Net profit (Rs cr)	1228.7	1355.8	1864.4	1954.9	2282.6
% y-o-y change	*44.0*	*10.3*	*37.5*	*4.9*	*16.8*
EPS (Rs)	34.0	35.4	46.0	48.2	56.3
PER (x)	20.2	19.3	14.9	14.2	12.2
EV/EBIDTA (x)	10.7	10.6	9.2	7.5	6.4
RoCE (%)	32.5	28.8	29.9	25.9	29.9
RoNW (%)	29.9	24.5	27.1	24.0	27.1
Consolidated					
Net profit (Rs cr)	1334.8	1728.1	2170.0	2331.1	2654.7
% y-o-y change	*45.3*	*29.5*	*25.6*	*7.4*	*13.9*
EPS (Rs)	36.9	45.1	56.3	60.9	65.9
PER (x)	18.6	15.2	12.2	11.3	10.4
EV/EBIDTA (x)	10.1	8.9	6.4	5.7	5.2
RoCE (%)	33.2	30.8	33.4	31.1	30.4
RoNW (%)	30.9	27.9	28.4	24.6	22.9

affected due to the higher interest rates and tightening liquidity. As a strategy going forward, the company plans to focus on new product launches and has lined up a number of launches in the next couple of years.

- We maintain our cautious view on the commercial vehicle (CV) industry and believe that the lacklustre trend in sales would continue in the coming months. We expect a revival at the end of the monsoons and with the commencement of the festive season. At the current market price of Rs685, the stock quotes at 10.4x its consolidated FY2009E earnings and at 5.2x its earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation with a price target of Rs792.

Strong performance in FY2007

TAMO registered a growth of 32.3% in its stand-alone net sales in FY2007. A high raw material cost and a competitive environment affected the margins for the year, as the operating profit margin stood at 11.4% for the year as against 12% in the last year. The raw material cost as a percentage of sales grew from 68.4% in FY2006 to 69.8% during the year, though the impact of the same was partly offset by the ongoing cost reduction measures of the company. Consequently, the pre-extraordinary net profit for the year increased by 37.5% to Rs1,864.4 crore.

All-round growth

Though there was no new product launch during the year, a number of variants were launched to keep the sales momentum going. Some of the products launched in the previous year like *Tata Ace* and *India V2 Xeta* led the momentum growth for the company. The M&HCV sales volumes picked up splendidly, as a result of the ban on the overloading of trucks imposed by the Supreme Court.

During the year, the automobile sales rose brilliantly by 33.9% to Rs29,211 crore led by a volume growth of 27.8% and a realisation growth of 4.8%. The revenues from the engine division were more or less stagnant at Rs69.9 crore, rising by 5%. The spare part division contributed Rs1,220.1 crore (a growth of 29.4%); the casting division contributed Rs284.1 crore (up 8.4%); and the income from services registered a decline of 7.4% to Rs44 crore. The export volumes during the year marked a growth of just 6.5% as the exports as a percentage of sales declined to 8.55% from 9.86% last year.

Segment-wise performance

CVs

CV sales rose magnificently during the year, led by a strong growth in the freight availability, buoyant freight rates, and the ban on the overloading of trucks imposed by the Supreme Court. During the year, TAMO extended its dominance over the sector by increasing its overall market share to 63.8% through a 39% growth in its sales as compared to a 33.3% growth in the industry's sales. Ace continued to top the charts and the company was able to surpass sales of one lakh units in just 22 months since its launch. TAMO ended the year with sales of 125,744 units of Ace.

Passenger vehicles

The company recorded a 20.7% growth in the sales of its passenger vehicles during the fiscal. The high growth could be attributed to the lowering of the excise duty on small cars in the FY2006-07 Union Budget, the strong economic growth, and the launch of new models and variants. The company's Tata *Indica* sales grew by nearly 31% and its market share grew from 16.9% in the previous year to 17.4%. During the year, the company also launched its long wheelbase *Indigo XL* in the premium sedan category, with high-end features previously available only in very premium executive saloons. The model was positioned in the upper mid-sized segment. However, the sales of the passenger cars during the year were slightly affected by a fire in its paint plant at Pune in September 2006. The utility vehicle (UV) segment of the company too witnessed a growth of 26.3% against an industry growth of 13.2%, primarily due to the strong performance of *Tata Safari* after the repositioning of its price.

Sales performance during FY2007

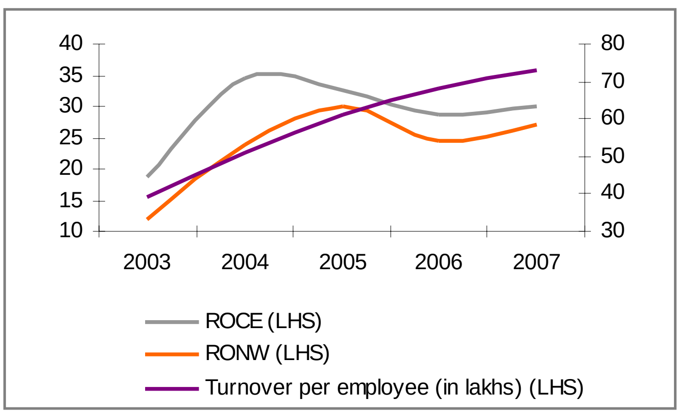
	Industry sales			TAMO sales			Market share (%)	
	FY2007	FY2006	% growth	FY2007	FY2006	% growth	FY2007	FY2006
Domestic CV								
MHCVs	275,600	207,472	32.8	172,842	128,610	34.4	62.7	62.0
LCVs	192,282	143,569	33.9	125,744	86,226	45.8	65.4	60.1
Total CVs	467,882	351,041	33.3	298,586	214,836	39.0	63.8	61.2
Domestic passenger vehicle								
Small cars	832,161	662,094	25.7	146,018	111,772	30.6	17.5	16.9
Mid-sized cars	206,431	213,862	-3.5	34,310	39,388	-12.9	16.6	18.4
UVs	220,199	194,502	13.2	47,892	37,910	26.3	21.7	19.5
Total passenger vehicles	1,379,698	1,143,076	20.7	228,220	189,070	20.7	16.5	16.5

Better operating efficiencies

The company made considerable improvements in its working capital management as the debtor days came down from 12.7 days to 10.5 days while inventory days fell to 33.7 from 35.8 days earlier. The productivity levels also improved as the turnover per employee rose from Rs68 lakh to Rs73 lakh. However, the high prevailing raw material prices during the year restricted the operating profit margin (OPM) of the company, which came down from 12% to 11%, as the high raw material prices were only partly offset by the cost-saving measures. However, the company maintains that it would continue its cost-saving measures going forward, which shall lead to better operational efficiencies in future. The company's overall borrowings stood at Rs4,009.14 crore as on March 31, 2007 as the debt/equity ratio stood at 0.58. Net of its vehicle-financing portfolio, the company is a debt-free company as of March 31, 2007.

The return ratios during the year remained stable as the RoCE stood at 29.9% and the RoNW was 27.1%. However, considering the aggressive capex plans of the company in the next three four years, the ratios are expected to decline going forward.

Improving operating metrics



Performance of subsidiaries

The consolidated picture looks even better as the subsidiaries rendered a strong performance during the year. The sales marked a growth of 36.4% to Rs32,426.4 crore while the profits marked a growth of 29% to Rs2,206.4 crore.

- *Tata Daewoo CV:* The company's turnover for FY2007 increased by 47% to Rs2,333.6 crore while the profit after tax (PAT) grew by 42.4% to Rs83 crore. The sales volume rose impressively by 46% year on year (yoy) to 8,630 units, as it improved its market share to 26% in the Korean market.
- *Telco Construction Equipment Co*: The company performed brilliantly during the year, rendering its best performance, as the company sold 5,360 machines (a 46% growth yoy). The outlook on the company is very positive as it continues to be the market leader in excavators, while its market share in wheel-loaders and backhoe loaders has improved to 23% and 10% respectively.
- *Tata Technologies:* Though the revenues saw a strong growth of 76%, the company wasn't able to improve its margin as its PAT grew by only 40%.
- *Other subsidiaries:* The other subsidiaries like HV Transmissions and HV Axles grew well as their fortunes are linked to the growth of the CV business, recording profit growth of 49.5% and 25% respectively.
- The vehicle financing division of the company and its wholly owned subsidiary, TML Financial Services, under the brand *TataMotorfinance* (TMF) financed 165,376 vehicles (a growth of 71.8% yoy). In the CV segment, its total disbursals grew by 66% to 6,122 crore as it achieved a market share of 37.7%.

Capex and new product launches

TAMO has drawn an aggressive capex programme of Rs12,000 for the next four years. Out of this Rs8,000 crore would be spent towards new product development and the balance would be spent towards capacity expansions, modernisation and on sustaining capex. Out of the total capex, Rs7,500 crore will be funded through internal accruals, while the remaining shall be funded through a mix of instruments. In its annual report, the company says that it has lined up a number of new launches for the next couple of years. This includes a new world truck *Novus*, a new range of cars expected next year, followed by a new UV platform and a small car. The company has recently also launched the passenger variant of its highly successful Tata *Ace*, christened *Magic*, and another maxi-van called *Winger*.

Performance of subsidiaries

	Turnover (Rs crore)			PAT (Rs crore)		
	FY07	FY06	% change	FY07	FY06	% change
Tata Daewoo CV Ltd, Korea	2,333.6	1,584.9	47.2	83.0	58.3	42.4
Telco Construction Equipment Co	1,827.7	1,305.0	40.1	183.9	86.8	111.9
TML Financial Services	160.2	0.0		12.8	0.0	
Tata Technologies	960.5	545.0	76.2	16.3	11.6	40.5
HV Transmissions	175.6	127.7	37.5	45.0	30.1	49.5
HV Axles	196.7	143.9	36.7	57.9	46.3	25.1

The company hopes to launch the small car in the first half of 2008 and the plant which is being set up at Singur, West Bengal would have a capacity of 250,000 units.

Raising $490 million internationally

To part-fund its aggressive expansion plans, the company has just announced that it would issue foreign currency CARS aggregating to US$490 million, which includes a greenshoe option of $40 million, and the same shall be listed on the Singapore Stock Exchange. The CARS will be convertible at an option of the company into depositary receipts, American depository receipts or ordinary shares, at a price of Rs960.96 a share. At that price, it would lead to issuance of another 2.04 crore shares, which would translate into a further dilution of 5%. CARS will have zero coupon rates and the outstanding at maturity will be redeemable at a premium of 31.82% of the principal amount.

Other new developments

Joint venture in Thailand

During the year, TAMO started working towards setting up a joint venture with a Thailand-based company, Thonburi Automotive Assembly Plant Co (Thonburi), to manufacture, assemble and market pick-up trucks. TAMO would hold a 70% stake in the venture with Thonburi holding the balance 30%. The venture would entail a total investment of Rs120 crore. The joint venture will facilitate the company's entry into the Thai market, which is the second largest pick-up market in the world, as well as the other potential markets in that region.

Joint venture with Marcopolo

TAMO has also entered into a 51:49 joint venture with Brazil-based Marcopolo to manufacture and assemble fully built buses and coaches, in an effort to further strengthen its position in the passenger carrier segment. The venture would produce a variety of buses including 16-seater to 54-seater standard buses, 18-seater and 45-seater luxury buses, luxury coaches and low-floor city buses. The joint venture will cater to the domestic requirements and also export to some of the markets abroad.

MoU with IVECO

The company also signed a memorandum of understanding (MoU) with IVECO, a company of the Fiat Group, to evaluate the feasibility of co-operation, across markets, in the area of CVs, which encompasses a number of potential developments in engineering, manufacturing, sourcing and distribution of products, aggregates and components. Also, during the year, construction of the new manufacturing plant (jointly owned with Fiat) at Ranjangaon progressed on schedule and the new plant is expected to go on stream in 2008.

Positive outlook on auto industry, albeit lower growth than last year

Going forward, the company is optimistic about the prospects of the automobile industry, considering the strong macro factors such as an aggressive target of 8% economic growth in the Eleventh Five-Year Plan period, the ongoing road development programme, lower car penetration in the country and rising disposable income. The company expects both the CV and the passenger vehicle industry to see positive growth for the current fiscal, though the growth would be lower in comparison to that seen in the previous year. However, at the same time, the company, in its annual report, has recognised that the "hardening of consumer finance interest rates and tight liquidity have already started to have an adverse impact on the automotive industry. If these trends were to continue, growth in the automotive sector could be adversely impacted." Also, the rising input costs and the increased competition with the entry of the new and global players act as threats for the company.

As a strategy to combat the situation, the company has said that it plans to launch a number of new products over the next two years. It has said that it plans "to further fortify its position in the coming fiscal by launching new products in various segments of the automotive market. The Company's presence in various segments and across geographies would help it to offset some of the shrinkage/ slow growth in the domestic market. The Company is also expanding its manufacturing footprint to meet its higher growth aspirations."

Valuation and view

We take a very cautious outlook on the CV industry following the rising interest rates and tightening liquidity. We believe that this lacklustre trend would continue in the coming months and expect the demand to pick up towards the end of the monsoons season led by agricultural demand and the commencement of the festive season. We expect TAMO's CV sales to grow by 6.1% during the current year, mainly on the back of an 18% growth in the LCV segment. We expect its car segment to record an 8% growth. Though the volumes are expected to improve going forward, the earnings would be adversely affected by the heavy interest and depreciation burden of the company as a result of its huge capex. At the current market price of Rs685, the stock quotes at 10.4x its consolidated FY2009E earnings and 5.2x its FY2009E EBIDTA. We maintain our Buy recommendation on the stock with a price target of Rs792.

The author doesn't hold any investment in any of the companies mentioned in the article.

Ratnamani Metals & Tubes

Ugly Duckling

Stock Update

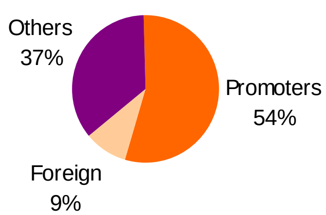
Q4FY2007 results: First-cut analysis

Buy; CMP: Rs880

Company details

Price target:	Under review
Market cap:	Rs792 cr
52 week high/low:	Rs948/266
NSE volume: (No of shares)	4,630
BSE code:	520111
NSE code:	RATNAMANI
Sharekhan code:	RATNMET
Free float: (No of shares)	0.4 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	21.9	39.5	117.0	166.3
Relative to Sensex	20.8	24.0	98.8	81.6

Result highlights

- The Q4FY2007 results of Ratnamani Metals & Tubes are above our expectations.
- The company reported strong quarterly results. The revenues for the quarter grew by 95.3% to Rs172.6 crore.
- The operating profit for the quarter grew by 77.6% to Rs34 crore and the operating profit margin (OPM) for the same period declined by 240 basis points to 22.3% from 24.8% in Q4FY2006. The OPM declined due to a higher raw material cost as a percentage of sales. The raw material cost went up by almost 310 basis points to 62.9% from 59.8% in Q4FY2006. Other expenses as a percentage of sales also went up by 110 basis points during the quarter.
- The interest expense for the quarter increased by 111.4% to Rs4.9 crore while the depreciation cost for the quarter increased by 310.1% to Rs6.2 crore.
- The profit before tax grew by 80% to Rs27.6 crore. The net profit for the quarter grew by 38.4% to Rs17.5 crore due to a higher tax rate of 36.7% in this quarter compared with 17.8% in Q4FY2006.
- For the full year, the net sales grew by 79% to Rs571 crore and the net profit grew by 91% to Rs64.2 crore.
- The order book at the end of this quarter stood at Rs500 crore.
- Driven by a strong order book and the increasing demand for its products from its key user industries, which are in capital expansion phase, we believe there is strong visibility of its earnings. At the current market price, the stock is trading at 12.4x its FY2007 earnings per share and 6.9x its FY2007 enterprise value/ earnings before interest, depreciation, tax and amortisation. We shall be upgrading our earnings estimates for FY2008 as well as the price target and would be coming out shortly with a detailed update on the company.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy chg	FY07	FY06	% yoy chg
Gross	172.6	88.3	95.6	614.7	349.92	75.7
Excise duty	20.0	11.0	82.3	43.5	30.80	41.2
Net sales	152.6	77.3	97.4	571.2	319.1	79.0
Total expenditure	118.5	58.2	103.7	443.5	255.8	73.4
Operating profit	34.1	19.1	78.3	127.7	63.3	101.7
Other income	4.7	0.0	14,996.8	5.0	0.1	8,266.7
EBIDTA	38.8	19.2	102.4	132.7	63.4	109.4
Interest	4.9	2.3	111.1	16.4	8.9	84.6
Depreciation	6.2	1.5	309.6	15.6	7.4	110.5
PBT	27.7	15.3	80.6	100.7	47.1	113.9
Tax	10.1	2.7	270.5	36.5	13.6	169.6
PAT	17.6	12.6	39.4	64.2	33.5	91.4
Extraordinary items	0.0	0.0	-	0.0	0.0	-
Reported PAT	17.6	12.6	39.4	64.2	33.5	91.4
EPS	19.5	14.0	39.4	71.3	37.3	91.4
Margins						
OPM (%)	22.3	24.7		22.4	19.8	
PATM (%)	11.5	16.3		11.2	10.5	

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Lever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
Federal-Mogul Goetze (India)
KSB Pumps
Marksans Pharma
Navneet Publications (India)
Network 18 Fincap
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Tata Elxsi
Television Eighteen India
Thermax
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Power Infrastructures
Hexaware Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India