Friday 7 September 2007

Change of target price

Tata Motors

New model to accelerate growth

With at least one large product launch planned for each of the few two quarters and interest rates easing, we expect robust growth in volumes. However, we trim EPS forecasts and target price to factor in a potential fall in profitability from the company's small car. Buy.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue (Rsm)	206022	273929	301701	360534	428416
EBITDA (Rsm)	25796.9	32719.7	31024.6▼	37809.7▼	46526.9
Reported net profit (Rsm)	15288.8	19135.1	19475.6▼	20911.0▼	25662.1
Normalised net profit (Rsm)[1]	13753.3	18730.6	17416.7	20911.0	25662.1
Normalised EPS (Rs)	36.9	48.8	44.2▼	51.6▼	63.0
Dividend per share (Rs)	13.0	15.0	15.0	17.5▲	20.0
Dividend yield (%)	1.86	2.15	2.15	2.51	2.86
Normalised PE (x)	18.9	14.3	15.8▲	13.5▲	11.1
EV/EBITDA (x)	11.1	9.19	9.01	7.28	5.90
Price/book value (x)	4.83	3.92	2.97	2.55	2.23
ROIC (%)	25.5	21.6	14.2	15.8	17.3

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

June 2007 results mark the trough; expect new models to drive growth

Tata Motors's normalised net profit dropped 47.8% yoy in the quarter ended June 2007, as M&HCV volumes declined sharply and as the vehicle-finance division was demerged in October 2006. We expect a qoq expansion in EBITDA margins in the quarters ahead, thanks to rationalisation of production in the M&HCV division. We expect sales growth to accelerate in 2HFY08F, aided by the recent sharp drop in vehicle-finance rates and the company's new products - Magic, Winger and a new UV.

Introducing forecasts for Rs100,000 car - PAT break-even in FY10F

Management says construction of its factory for the Rs100,000 car is on schedule, in spite of opposition from local interest groups. Management expects to launch the base version of the car by September 2008, followed by three higher-priced versions. We expect the Rs17bn project to break even on PAT basis at 90% capacity utilisation of 225,000 vehicles in FY10F, after a net loss of Rs717m in FY09F. The involvement of two-wheeler vendors, tight costing and the planned volume ramp-up are the project's positives, but much will depend on the vehicle's fuel efficiency, which is not yet known.

We trim our EPS forecasts and target price, but retain Buy rating

We reduce our PAT forecast for FY08 by 18% and FY09 by 14%, to factor in the potential financial impact of the Rs100,000 car project and the company's weak performance in the quarter ended June 2007. We build in a revival in the company's domestic M&HCV volumes in view of the softening in interest rates and firmness in freight rates. We expect new launches in other divisions to accelerate volume growth. For subsidiaries, we roll our valuation forward to FY09F and hence raise it from Rs107 to Rs128. We reduce our three-stage DCF-based target price to Rs961, which represents a PER of 16x on FY09F stand-alone EPS after adjusting for value of subsidiaries. We retain our Buy recommendation.

Priced at close of business 6 September 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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Buy

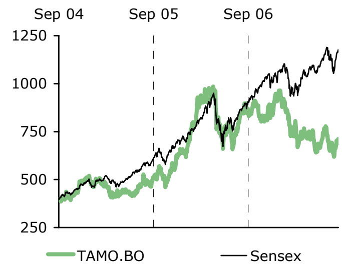
Absolute performance
n/a
Short term (0-60 days)
Neutral
Market relative to region

Capital Goods
India

Price
Rs711.80
Target price
Rs961.00 (from Rs994.60)
Market capitalisation
Rs268.97bn (US$6.60bn)
Avg (12mth) daily turnover
Rs281.86m (US$6.52m)

Reuters	Bloomberg
TAMO.BO	TTMT IN

Price performance	(1M)	(3M)	(12M)
Price (Rs)	649.6	687.0	884.3
Absolute %	9.6	3.6	-19.5
Rel market %	4.6	-5.4	-38.5
Rel sector %	7.0	-5.0	-48.5



Stock borrowing: Moderate
Volatility (30-day): 38.75%
Volatility (6-month trend): ↑
52-week range: 974.80-616.15
Sensex: 15616.31
BBG AP Eng & Mach: 222.67

Source: ABN AMRO, Bloomberg

Researched by
ABN AMRO Institutional Equities Team

www.abnamroresearch.com

New products to drive volume growth

We expect the ongoing softening in interest rates to aid a recovery in CV demand. This, coupled with launches of new cars and CVs over the next 18 months, should help Tata Motors counter competition. Buy.

Volumes seem to have hit bottom in July; strong mom growth in August

Tata Motors's sales volumes registered strong month-on-month growth in August on the previous month's low base, but yoy, its volumes were still down. Volume sales of its M&HCVs rose 12.1% in August, thanks to the decline in vehicle finance rates (which dropped nearly 300bp in the past six weeks for large truck operators) and firmness in freight rates.

Table 1 : April-August 2007 sales volumes

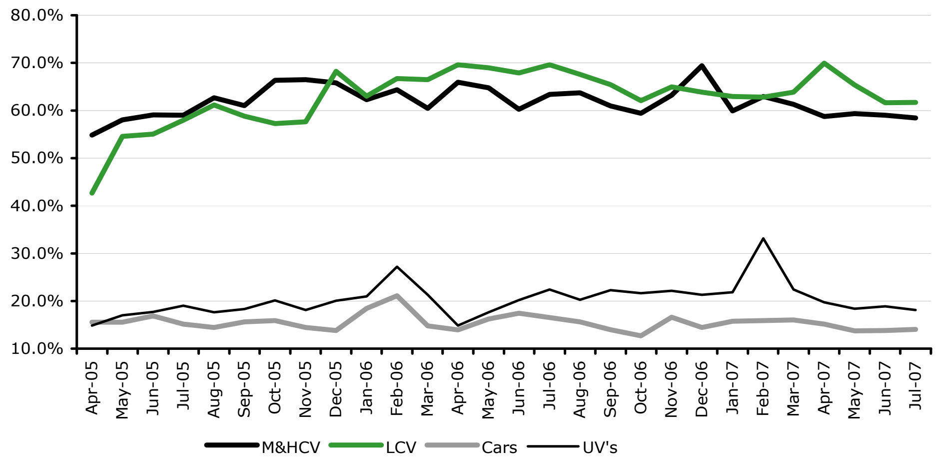
	August 2007	% yoy growth	% mom growth	April-August 2007	% yoy growth
Domestic	**38,835**	***(1.4)***	***6.2***	**113,539**	***(1.1)***
M&HCV	11,625	*(13.6)*	*12.1*	54,647	*(12.1)*
LCV	11,806	*22.8*	*14.2*	51,188	*12.4*
UVs	3,032	*(12.1)*	*(8.8)*	16,395	*5.3*
Cars	13,588	*(3.6)*	*(0.7)*	69,076	*(1.5)*
Exports	5,093	*8.0*	*16.2*	23,297	*0.8*
Grand total	**45,144**	***(0.4)***	***7.2***	**214,603**	***(0.9)***

Source: Company data

Market share loss in April-July in all segments except LCVs

Tata Motors's volume share in the domestic M&HCVs market dropped 4ppt yoy to 59% in April-July (the company lost share to Ashok Leyland and Eicher Motors). We attribute this primarily to regional imbalances in demand growth and a shortage of Cummins engine supplies to Tata vehicles. A rush of new launches led to a loss in the company's domestic market share in April-July 2007 – by 100bp yoy to 14% in cars and by 200bp yoy to 19% in UVs. LCV was the only segment in which the company held on to its market share of 65% in April-July 2007, as the company ramped up production of the ACE.

Chart 1 : Tata Motors's volume share in the domestic market

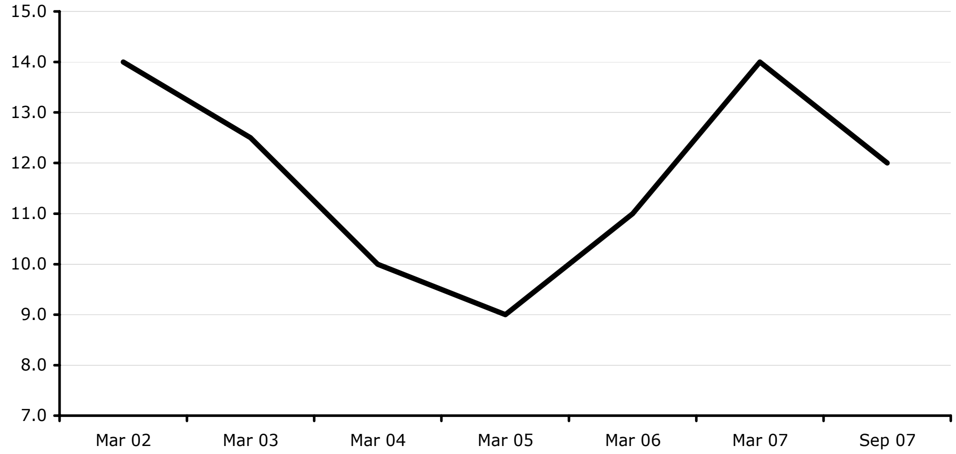


Source: SIAM, ABN AMRO

Expect a revival in M&HCV volumes as interest rates ease

Tata Motors was not able to fully tap growth in demand from the recent decline in vehicle finance rates and firmness in freight rates, as the company had sharply cut production in June (so there was a waiting period in northern India for some of its models). We expect volume growth to recover over the next few weeks and hence positive growth in M&HCVs in the remaining months of FY08F. Accordingly, we factor in 5.1% volume growth in the domestic M&HCV segment over September 2007-March 2008. For FY09, we forecast 15% growth in the company's domestic M&HCV volumes on the back of ongoing road widening projects and the company's launch of its 'world truck'.

Chart 2 : Interest rates on CV finance loans



Source: Industry data, ABN AMRO

LCVs: Two new vehicles aimed at stepping up volume growth

Tata Motors launched two new passenger vehicles – the Magic and the Winger – in mid-June 2007. The aim is to "create new segments in rural and urban passenger transportation".

Tata Magic: The Magic, which is based on the platform of the company's highly successful last-mile goods carrier, the Ace, is positioned as a comfortable and affordable public transport vehicle for rural areas. The vehicle can seat up to eight passengers (including the driver) and can be used as a taxi cab in rural and semi urban areas. Thus, the product serves the same needs that are at present served largely by large six-seater three-wheelers and UVs. In the year ending March 2007, three-wheelers carrying up to six passengers sold 10,539 units, with Scooters India accounting for half the numbers.

Tata Motors maintains that it intends to create a new segment altogether. Historical data supports this assertion: the success of the Ace has coincided with 14% yoy growth in domestic sales of three-wheeler goods carriers to 167,121 units in FY07.

Our view: the Magic is competitively priced vis-à-vis large three-wheelers, adjusting for local permit fees. Dealers indicate initial footfalls in showrooms have been encouraging, but say the company's sales target seems a bit steep.

Tata Winger: The Winger is positioned as a medium-distance and intra-city vehicle such as those used for staff transport (by BPOs and IT companies), hotel & airport transfers, tourist carriers, ambulances and school vans. With an advertised mileage of 12km/litre, we expect it to compete with all UVs and MUVs that are deployed for commercial purposes and LCV passenger carriers such as the Bajaj Tempo Traveller and the Mahindra Tourister. The Winger is priced about 10% higher than Tata's Sumo Victa UV but, in our view, offers a better value proposition, given its higher seating capacity and power steering. It is about 25% cheaper than Force Motors's Tempo Traveller (LCV bus) and thus has a price edge.

Domestic UV volumes rose 13% yoy to 220,199 units in FY07. LCV passenger-carrier volumes rose 6% yoy to 23,779 units in FY07.

Our view: The Winger is aggressively priced at Rs500,000-650,000, and hence offers scope to expand the UV segment, in our view.

Car division market share under threat from competing models

Tata Motors's domestic market share in cars dropped 190bp yoy to 14.2% in April-July 2007, as: 1) sales of its flagship compact car, the Indica, were flattish, while the compact segment grew strongly on the back of new launches by Maruti and General Motors; and 2) sales of the company's sedans dropped 10% as competitors launched new diesel variants in the segment. We expect Tata Motors to counter competition by launching variants with DICOR and Fiat diesel engines over the next 12 months.

We build in estimates for the Rs1-lakh (Rs100,000) car from September 2008 onwards

The much-awaited Rs100,000 car has passed the prototype stage and is expected to be launched in the July-September 2008 quarter. According to the company's component vendors, the car plant's construction in Singur (in the eastern Indian state of West Bengal) is progressing on schedule, despite opposition by local interest groups. Management says it is confident it can launch the car by September 2008. Hence, we build this mini car into our estimates, based on the following assumptions and estimates:

- From vendors and press reports, we understand the car is wider and its wheel base is slightly longer than that of the Maruti 800, the cheapest car in India. Chairman Ratan Tata has said in recent interviews that the car will comply with all Indian emission and safety standards.
- Given the vehicle's 624cc and 33BHP petrol engine, we expect the vehicle's fuel efficiency to be better than the Maruti 800's 23kmpl (kilometres per litre). This should keep overall life-cycle cost of ownership low, as fuel constitutes a large percentage of total cost according to industry estimates.
- We estimate an average per-vehicle gross realisation of Rs125,000, as we expect the company to launch a base version priced close to Rs100,000, followed by two or three higher-priced versions with better trim, accessories and air-conditioning. We expect the diesel version to be introduced in 2009.
- We expect most of the car's customers would be those trading up from two-wheelers, as nearly 50% of current two-wheeler demand is replacement demand according to industry estimates. Tata Motors says it plans to offer an 18-month/24,000km warranty, which should help build initial consumer confidence.
- We expect the company to sell 57,000 cars in the six months after launch in FY09. We expect this number to rise to 225,000 in FY10, implying a capacity utilisation of 90%.
- Most of the vehicle's components would come from the two-wheeler industry's supplier base. Many of these component vendors have told us they have quoted prices lower than those charged to makers of two-wheelers. We estimate raw-material costs at around 76% of net sales. We expect production, marketing and support staff for the car to rise from an initial 2,000 to 3,000 employees over three years; this would imply staff cost of 4-4.5% of net sales.

- We estimate the project would break even at the PAT level at a production rate of 225,000, ie, 90% capacity utilisation for the Rs17bn project cost in FY10F as compared to a net loss of Rs716.8m in FY09F.
- We expect the project to reach RONW of 15.4% in FY12F, when we forecast its sales will reach 468,000 pa and EBITDA margins will stabilise at 8%.
- As for competition, we expect Maruti to drop prices of its entry-level model (the Maruti 800) by 10% and introduce cheaper-fuel options such as LPG or CNG. This should help expand the segment by eating into motorcycle replacement demand, which constituted 50% of the segment's 6.6m unit sales for year-ending March 2007.

Table 2 : Project profitability of Rs100,000 car

P&L a/c (Rs m)	FY09F	FY10F	FY11F	Balance sheet (Rs m)	FY09F	FY10F	FY11F
Sales volume (nos)	57,000	225,000	360,000	Net worth	9,283.2	9,291.4	10,472.8
Net sales	**5,985.0**	**24,215.6**	**39,713.6**	Total debt	6,800.0	6,800.0	6,300.0
Contribution per vehicle (Rs)	23,100	25,292	26,476	**Total liabilities**	**16,083.2**	**16,091.4**	**16,772.8**
Total contribution	1,316.7	5,690.7	9,531.3	Net block	16,005.0	16,425.0	17,225.0
Other expenses	1,198.5	3,921.6	6,286.4	CWIP	200.0	200.0	200.0
Operating profit	**118.2**	**1,769.1**	**3,244.9**	Total fixed assets	16,205.0	16,625.0	17,425.0
OPM (%)	2.0	7.3	8.2	Net working capital	(37.3)	(335.3)	(181.3)
Interest	340.0	680.0	655.0	Misc expenses not w off	0.0	0.0	0.0
Depreciation	495.0	1,080.0	1,200.0	**Total assets**	**16,167.7**	**16,289.7**	**17,243.7**
PBT	(716.8)	9.1	1,389.9				
Tax	0.0	0.9	208.5				
PAT	**(716.8)**	**8.2**	**1,181.4**				
Assumptions							
P&L assumptions				**B/s assumptions**			
No of years operation	0.5	1	1	D:E	0.7	0.7	0.6
Average net realisation per car (Rs)	**105,000**	**107,625**	**110,316**	Interest rate (%)	10.0	10.0	10.0
RM % of net sales	78.0	76.5	76.0	Depreciation rate (%)	6.0	6.0	6.0
Staff (nos)	2,000	2,000	3,000				
Avg salary (Rs m)	0.5	0.55	0.605				
Expenses as net sales (%)				**WC assumptions (no of days of sales)**			
Raw-material expenses	78.0	76.5	76.0	Inventory	10	10	10
Staff expenses	8.4	4.5	4.6	Debtors	30	30	30
Other expenses	11.7	11.7	11.3	Creditors	45	45	45

Source: Company data, ABN AMRO forecasts

We trim EPS forecast to factor in weak June 2007 quarter and mini-car project

Tata Motors's NPAT dropped 48% yoy to Rs2.59bn in the June 2007 quarter. NPAT dropped despite 4% yoy growth in net sales to Rs60.6bn, as the profitable M&HCV segment's sales volume dropped 7.7% yoy and the company hived off the vehicle finance division to a wholly-owned subsidiary in October 2006. Given the revival we expect in the company's CV volumes (thanks to the sharp drop in vehicle finance rates and launch of the Winger and the Magic), we build in 16.8% qoq volume growth for September 2007 to March 2008. This, we estimate, would translate into a full-year EBITDA margin of 10.3% for FY08 (against 11.9% in FY07F). Accordingly, we cut our FY08 PAT forecast by 18.3% to Rs17.42bn.

For FY09, we trim our PAT forecast by 14.1% to Rs20.9bn to factor in: 1) the forthcoming launch of its Rs100,000 car project, which we estimate will incur a net loss of Rs717m for six months of operations; and 2) launches of new UVs curtailing margin improvement in the initial years.

We introduce our FY10 forecasts with 32% volume growth driven by 65% growth in car sales volumes (which include first full year of sales for the Rs100,000 car). The lower margins from this car would partly offset the company's overall EBITDA margin expansion expected from the CV business; as such, we forecast the company's EBITDA margin would expand only 20bp to 10.9%. Furthermore, with higher capex, we expect normalised PAT growth of 32% to Rs25.7bn.

Table 3 : Earnings revision at a glance

	FY08F		FY09F	
Rs m	**New**	**Old**	**New**	**Old**
Sales volume (nos)	627,644	648,924	784,448	744,039
Change (%)	-3.3%		5.4%	
Net sales	301,701	310,866	360,534	360,654
Change (%)	-2.9%		0.0%	
EBITDA	31,025	35,495.3	37,810	40,271.4
Change (%)	-12.6%		-6.1%	
Normalised PAT	17,417	21,306.4	20,911	24,342.2
Change (%)	-18.3%		-14.1%	
EPS (Rs)	44.2	54.1	51.6	60.1
Change (%)	-18.3%		-14.1%	

Source: ABN AMRO forecasts

Plans to acquire Jaguar and Land Rover cause concern

The Tata group's eagerness to acquire large international companies seems to be influencing Tata Motors's strategy. Chairman Ratan Tata recently confirmed the company's interest in Jaguar and Land Rover, which Ford has put on the block. Considering Tata Motors's positioning as a low-cost manufacturer in the fast-growing Indian market, premium car and SUV companies are hardly a good match for it, in our view. Considering Jaguar's and Land Rover's high-end positioning, we doubt there would be significant synergy benefits, except better car design expertise for a merged entity. In any case, it is too early to comment on the merits of any bid by Tata, as there are not enough details on potential co-bidders, timing and funding pattern. Prima facie, we would be cautious on any such large acquisition, given that Tata Motors's hands will be full with new product launches in India in CY08F and ramping up production of the Rs100,000 car. Furthermore, the company's consolidated net debt to equity of 0.8:1 gives it little room to make large acquisitions – which means a leveraged buyout may be the only viable option.

We maintain Buy, but trim target price for reduced EPS forecast and increased subsidiary value

We raise our valuation of Tata Motors's subsidiaries from Rs107/share to Rs128/share to factor in the introduction of our FY09F forecasts. On the other hand, we cut our EPS forecasts for FY08 and FY09 to factor in a fall in profitability on account of the Rs100,000 car. Hence, we also trim our three-stage DCF-based target price to Rs961 (from Rs994.6).

The stock has relatively underperformed the Sensex by 38.5% over the past 12 months. This underperformance, which we believe is due to weakness in CV demand, is unwarranted, in our view. We expect demand growth to recover and believe the company's new products will give it an edge over competition. We retain our Buy rating. Our revised target price translates to a PER of 16x on FY09F standalone EPS of Rs51.6, plus Rs128/share for subsidiaries.

Table 4 : Subsidiary valuation

Subsidiaries	Tata Daewoo	Telco Construction	HV Axles	HV Transmissions	Tata Technologies	TACO	Tata Cummins	TML Financial Services
PAT for FY09F (Rs m)	1425	2952	601	476	360	498	696	690
Tata Motors Holding (%)	100	60	100		84.76	50	50	100
Comparative company	Ashok Leyland	BEML	Automotive Axles		Geometric Software	Bharat Forge	Cummins India	Sundaram Finance
Comparative valuation	9.7XFY09F	16.6xFY09F	9x FY09F		9x FY09F	14.8x FY09F consolidates	20x FY09F	11.8x FY09F
Reason for premium/discount to peer valuation	In-line valuations	Discount valuation for relatively small scope of operations	Discount valuations for dependence on Tata Motors		In-line valuations	Discount valuations as it is diversified and yet to make a global footprint	Discount valuations for dependence on Tata Motors	Discount valuations for dependence on Tata Motors
PE multiple	10	14	8		10	12	15	9
Total value of the stake (Rs m)	14,246	24,798	4,811	3,812	3,048	2,988	5,216	6,207
Value per share of Tata Motors	35	61	12	9	7	7	13	15
Total subsidiary value per share of Tata Motors	160							
Value post 20% holding company discount	128							

Source: Company data, Bloomberg, ABN AMRO forecasts

Key assumptions

Table 5 : Sales volume and per-unit assumptions

Sales Volume (nos)	**FY06A**	**FY07A**	**FY08F**	**FY09F**	**FY10F**
Domestic Sales Volume					
Medium & heavy commercial vehicles	128,714	172,842	170,920	196,662	220,205
Growth (%)	-0.4	34.3	-1.1	15.1	12.0
Light commercial vehicles	86,236	125,744	157,722	190,047	220,273
Growth (%)	42.0	45.8	25.4	20.5	15.9
Utility vehicles	37,905	47,893	52,682	59,004	66,085
Growth (%)	10.7	26.4	10.0	12.0	12.0
Cars	150,951	180,327	189,343	274,745	460,164
Growth (%)	4.2	19.5	5.0	45.1	67.5
Total domestic volume	403,806	526,806	570,668	720,457	966,726
Growth (%)	9.4	30.5	8.3	26.2	11.8
Total exports	50,539	53,474	56,976	63,990	70,606
Growth (%)	65.7	5.8	6.5	12.3	10.3
Grand total	**454,345**	**580,280**	**627,644**	**784,448**	**1,037,332**
Growth (%)	13.7	27.7	8.2	25.0	32.2
Per-vehicle assumptions (Rs)					
Net realisation	453,448	472,064	480,688	459,603	412,998
Growth (%)	4.0	4.1	1.8	(4.4)	(10.1)
Contribution	145,159	144,200	139,400	133,655	120,044
Growth (%)	0.3	(0.1)	(0.3)	(0.4)	(1.0)
EBITDA	56,778	56,386	49,430	48,199	44,852
Growth (%)	0.4	(0.1)	(1.2)	(0.2)	(0.7)
Adjusted PAT	30,271	32,279	27,749	26,657	24,739
Growth (%)	(0.3)	0.7	(1.4)	(0.4)	(0.7)

Source: Company data, ABN AMRO forecasts

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TATA MOTORS: KEY FINANCIAL DATA

Income statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Revenue	206022	273929	301701	360534	428416
Cost of sales	-140070	-190253	-214208	-255689	-303891
Operating costs	-40156	-50957	-56469	-67035	-77999
EBITDA	**25796.9**	**32719.7**	**31024.6**	**37809.7**	**46526.9**
DDA & Impairment (ex gw)	-5947.2	-6713.1	-7679.3	-10492	-13067
EBITA	**19849.7**	**26006.6**	**23345.3**	**27317.9**	**33460.2**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**19849.7**	**26006.6**	**23345.3**	**27317.9**	**33460.2**
Net interest	-2263.5	-3130.7	-3125.8	-3110.8	-3455.5
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	1412.1	2451.9	2697.1	3020.7	3322.8
Reported PTP	**18998.3**	**25327.8**	**22916.7**	**27227.9**	**33327.5**
Taxation	-5245.0	-6597.2	-5500.0	-6316.9	-7665.3
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	1535.5	404.5	2058.9	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**15288.8**	**19135.1**	**19475.6**	**20911.0**	**25662.1**
Normalised Items Excl. GW	1535.5	404.5	2058.9	0.00	0.00
Normalised net profit	**13753.3**	**18730.6**	**17416.7**	**20911.0**	**25662.1**

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

Balance sheet

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
Cash & market secs (1)	11194.3	8267.6	4646.8	3926.8	4438.3
Other current assets	85418.8	93150.6	89778.3	82535.9	87533.0
Tangible fixed assets	45212.3	63945.8	81133.3	106137	141137
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	20292.7	24870.9	38100.0	48100.0	44100.0
Total assets	**162118**	**190235**	**213658**	**240699**	**277208**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	59003.2	59934.5	80293.2	93564.8	111272
Long term debt (3)	29368.4	40091.4	15091.4	10091.4	10091.4
Oth non-current liab	18375.8	21511.5	23743.3	25523.0	28189.4
Total liabilities	**106747**	**121537**	**119128**	**129179**	**149553**
Total equity (incl min)	55370.7	68697.5	94530.6	111520	127655
Total liab & sh equity	**162118**	**190235**	**213658**	**240699**	**277208**
Net debt (2+3-1)	18174.1	31823.8	10444.6	6164.6	5653.1

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

Cash flow statement

Rsm	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA	25796.9	32719.7	31024.6	37809.7	46526.9
Change in working capital	1435.2	-3774.7	17273.1	3514.0	8510.3
Net interest (pd) / rec	-851.4	-678.8	-428.7	250.0	547.3
Taxes paid	-3823.5	-4825.0	-4125.0	-5030.0	-5997.3
Other oper cash items	-28149	554.7	10749.5	18779.7	6866.3
Cash flow from ops (1)	**-5591.5**	**23996.0**	**54493.5**	**55323.3**	**56453.6**
Capex (2)	-14194	-25447	-24867	-35000	-46987
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	11512.9	-6375.9	-1352.6	-8660.9	-1528.9
Cash flow from invest (3)	**-2681.5**	**-31822**	**-26219**	**-43661**	**-48516**
Incr / (decr) in equity	680.6	940.0	173.4	44.1	0.00
Incr / (decr) in debt	4414.2	10723.0	-25000	-5000.0	0.00
Ordinary dividend paid	-5677.8	-6763.2	-7068.2	-7426.5	-7426.5
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)	**-583.0**	**4899.8**	**-31895**	**-12382**	**-7426.5**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**-8856.1**	**-2926.7**	**-3620.8**	**-720.0**	**511.5**
Equity FCF (1+2+4)	-19786	-1450.6	29626.7	20323.3	9466.8

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

	Tata Motors					Ashok Leyland			Maruti Udyog		
Performance	**FY06A**	**FY07A**	**FY08F**	**FY09F**	**FY10F**	**FY08F**	**FY09F**	**FY10F**	**FY07F**	**FY08F**	**FY09F**
Sales growth (%)	18.3	33.0	10.1	19.5	18.8	11.7	10.7	14.9	21.1	17.1	16.3
EBITDA growth (%)	18.8	26.8	-5.18	21.9	23.1	4.08	11.7	17.4	20.9	12.6	17.7
EBIT growth (%)	20.0	31.0	-10.2	17.0	22.5	-1.51	6.85	14.1	25.6	9.69	14.5
Normalised EPS growth (%)	6.11	32.0	-9.36	16.8	22.1	-5.38	5.59	9.54	28.2	10.6	14.4
EBITDA margin (%)	12.5	11.9	10.3	10.5	10.9	9.06	9.15	9.34	15.1	14.5	14.6
EBIT margin (%)	9.63	9.49	7.74	7.58	7.81	6.72	6.49	6.44	13.2	12.4	12.2
Net profit margin (%)	6.68	6.84	5.77	5.80	5.99	5.01	4.78	4.55	10.2	9.62	9.46
Return on avg assets (%)	10.2	11.8	9.65	10.1	10.8	8.77	8.12	7.74	15.4	13.6	13.1
Return on avg equity (%)	28.5	30.2	21.3	20.3	21.5	20.0	19.1	18.9	24.7	22.1	20.8
ROIC (%)	25.5	21.6	14.2	15.8	17.3	14.8	12.0	10.7	57.5	38.8	29.3
ROIC - WACC (%)	12.9	9.07	1.66	3.23	4.67	1.79	-1.02	-2.30	44.3	25.6	16.1
					year to Mar			*year to Mar*			*year to Mar*
Valuation											
EV/sales (x)	1.39	1.10	0.93	0.76	0.64	0.74	0.74	0.70	1.48	1.28	1.12
EV/EBITDA (x)	11.1	9.19	9.01	7.28	5.90	8.19	8.10	7.47	9.86	8.87	7.63
EV/EBITDA @ tgt price (x)	15.1	12.3	12.3	9.95	8.08	7.57	7.54	6.99	11.6	10.4	8.93
EV/EBIT (x)	14.5	11.6	12.0	10.1	8.21	11.0	11.4	10.8	11.2	10.4	9.16
EV/invested capital (x)	3.60	2.78	2.45	2.15	1.89	1.96	1.70	1.52	6.01	4.01	2.97
Price/book value (x)	4.83	3.92	2.97	2.55	2.23	2.49	2.26	2.04	3.72	3.04	2.53
Equity FCF yield (%)	-7.61	-0.54	10.8	7.19	3.33	-5.55	-7.50	-5.73	1.87	-0.08	0.07
Normalised PE (x)	18.9	14.3	15.8	13.5	11.1	13.1	12.4	11.3	16.8	15.2	13.3
Norm PE @tgt price (x)	26.0	19.7	21.7	18.6	15.2	12.0	11.3	10.4	19.3	17.5	15.3
Dividend yield (%)	1.86	2.15	2.15	2.51	2.86	3.30	3.30	3.55	0.51	0.57	0.71
					year to Mar			*year to Mar*			*year to Mar*

Per share data	**FY06A**	**FY07A**	**FY08F**	**FY09F**	**FY10F**
Tot adj dil sh, ave (m)	372.3	384.1	394.1	404.9	407.2
Reported EPS (INR)	41.1	49.8	49.4	51.6	63.0
Normalised EPS (INR)	36.9	48.8	44.2	51.6	63.0
Dividend per share (INR)	13.0	15.0	15.0	17.5	20.0
Equity FCF per share (INR)	-53.1	-3.78	75.2	50.2	23.3
Book value per sh (INR)	144.6	178.2	234.7	273.9	313.5
					year to Mar

Solvency	**FY06A**	**FY07A**	**FY08F**	**FY09F**	**FY10F**
Net debt to equity (%)	32.8	46.3	11.0	5.53	4.43
Net debt to tot ass (%)	11.2	16.7	4.89	2.56	2.04
Net debt to EBITDA	0.70	0.97	0.34	0.16	0.12
Current ratio (x)	1.64	1.69	1.18	0.92	0.83
Operating CF int cov (x)	-1.08	43.5	137.7	-240.5	-113.1
Dividend cover (x)	2.42	2.77	2.46	2.51	2.69
					year to Mar

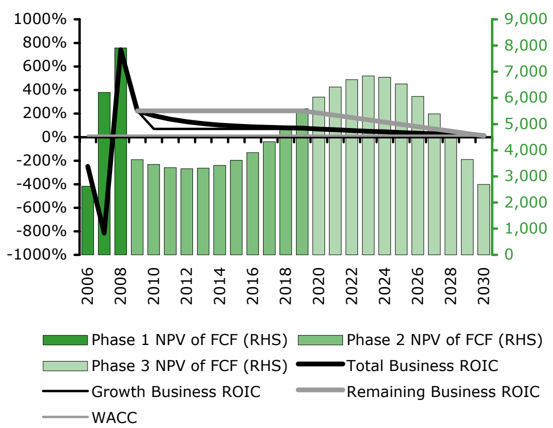
Priced as follows: TAMO.BO - Rs711.80; ASOK.BO - Rs39.45; MRTI.BO - Rs881.80
Source: Company data, ABN AMRO forecasts

TATA MOTORS: VALUATION METHODOLOGY

Economic Profit Valuation	**Rs m**	**%**
Adjusted Opening Invested Capital	85432.8	25
NPV of Economic Profit During Explicit Period	19577.9	6
NPV of Econ Profit of Remaining Business (1, 2)	75167.1	22
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	168385.5	48
Enterprise Value	348563.3	100
Plus: Other Assets (key subsidairy value)	65126.7	19
Less: Minorities	0.0	0
Less: Net Debt (as at 06 Sep 2007)	22330.6	6
Equity Value	391359.4	112
No. Shares (millions)	407.2	
Per Share Equity Value	**961.0**	
Current Share Price	711.8	

Discounted Cash Flow Valuation	**Rs m**	**%**
Value of Phase 1: Explicit (2006 to 2008)	25565.6	7.3
Value of Phase 2: Value Driver (2009 to 2019)	120567.9	34.6
Value of Phase 3: Fade (2020 to 2030)	124493.3	35.7
Terminal Value	77957.5	22.4
Enterprise Value	348584.3	100.0
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		12.4
FCF Grth Rate at end of Phs 1 implied by Current Price		12.2

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table		**No of Years in Fade Period**				
		15	**18**	**20**	**23**	**25**
WACC	**10.6%**	1,334	1,440	1,512	1,624	1,700
	11.6%	1,177	1,258	1,313	1,396	1,452
	12.6%	1,044	1,106	1,148	1,210	1,251
	13.6%	932	980	1,011	1,058	1,088
	14.6%	837	874	897	932	955

Performance Summary	**2008**	**2009**	**2010**	**Phase 2 Avg (2011 - 2021)**
Invested Capital Growth (%)	-8.9	5.2	26.5	16.7
Operating Margin (%)	7.7	7.6	7.8	7.6
Capital Turnover (x)	3.6	4.7	5.3	5.2

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

Source: Company data, ABN AMRO forecasts

Tata Motors

Company description — Buy

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 to the international markets with it recent acquisitions of the Daewoo CV business and Hispano buses of Spain. Being a strong player in India provides the company with cash flow for its expansion plans.

Price relative to country

Strategic analysis — Average SWOT company score: 3

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.

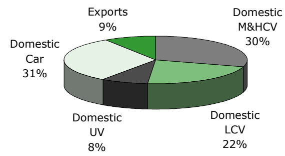
Weaknesses — 1
Unlike other auto majors, Tata has restricted itself to India and other developing countries: a potential disadvantage when other leading auto majors look to India for growth. Lack of global scale in the car business hurts when competing with globally developed cars.

Opportunities — 3
A leader in CVs and one of the largest players in cars in one of the world's fastest-growing auto markets. With low-cost product-development and manufacturing capabilities, it is exploring export opportunities in other developing and developed countries through organic and inorganic routes.

Threats — 3
Increasing threat of competition from entry of international truck majors and expansion of existing international car majors into the voluminous B&C car segment.

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

FY07F volume breakdown



Source: ABN AMRO forecasts

Market data

Headquarters
Bombay House 24 Homi Mody Street Mumbai - 01

Website
www.tatamotors.com

Shares in issue
385.2m

Freefloat
67%

Majority shareholders
Tata Group Cos (34%), Daimler Chrysler (7%)

India

Country view — Neutral

The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. Moreover inflationary pressure has eased with the recent rate hikes by the RBI. At the sector level, we still like autos (commercial vehicles), software and construction-related stocks as infrastructure spending should be a growth driver in FY08.

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 largest entry barrier.

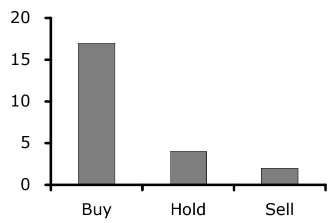
Customer power — 2-
Customer supremacy is established in the car market. However, CV is still an oligopolistic market, although this is changing, with some niche players exploring different segments.

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

Rivalry — 2-
The entry of international CV majors like MAN, Navistar and Isuzu may sharply increase competition in the medium term.

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

Broker recommendations



Source: Bloomberg