

## Company Flash

5 March 2008 | 7 pages

# Tata Motors (TAMO.BO)

## Buy: Feb 2008 Sales — Flat Y/Y, Modest Recovery in CV Sales

- Overall sales flat YoY** — Modest recovery in domestic sales (+2% YoY) partly offset by weak exports (down 9% YoY). Within the domestic segment, MHCV volumes rose 4% Y/Y and LCVs continued the strong performance both in domestic and export markets (+30% Y/Y). Cars continue to exhibit weakness (down 16% Y/Y) given the jaded product line-up.
- CVs show positive growth** — Overall MHCV sales were flat Y/Y (but domestic volumes +4% Y/Y) - commendable considering last year's challenging base. We expect the base effect to become favorable by June onwards. Moreover, bus demand should also show robust growth as excise benefits will be passed on to customers. LCVs' strong performance implies that short-haul demand remains robust.
- Passenger car sales still weak** — TAMO has lost ~270bps market share (now at 13.8%) over the fiscal, due to a jaded product line-up and fresh products from competition. We expect TAMO's car sales to recover into FY09E with the introduction of new Indica. Tax benefits should also spur volume growth in small cars.
- Jaguar and Land Rover** — Reiterate our view that deal structure and clear communication of timelines on restructuring these businesses will play a vital role in mitigating near-term share price volatility. Other material risks to our Buy (1L) recommendation are a) margin pressures and b) delayed recovery in CV sales.

<b>Buy/Low Risk</b>	<b>1L</b>
Price (04 Mar 08)	Rs701.80
Target price	Rs914.00
Expected share price return	30.2%
Expected dividend yield	1.9%
<b>Expected total return</b>	<b>32.2%</b>
Market Cap	Rs270,547M
	US\$6,727M

### Price Performance (RIC: TAMO.BO, BB: TTMT IN)

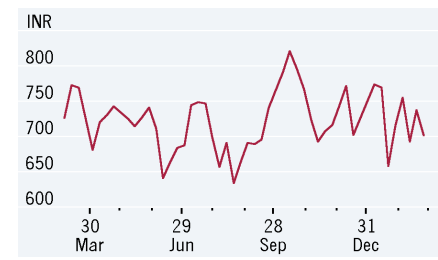


Figure 1. Tata Motors – February 2008 Sales

	Feb-08 Nos	% chg YoY	% chg over Jan	FY08 YTD (Nos)	% chg YoY
<b>Total Sales</b>	<b>54,181</b>	<b>0.9</b>	<b>-1.1</b>	<b>515,906</b>	<b>0.0</b>
H / MCVs	17,814	0.6	7.9	157,124	-5.3
LCVs	16,626	29.5	-2.8	155,004	16.4
<b>Total CVs</b>	<b>34,440</b>	<b>12.8</b>	<b>2.5</b>	<b>312,128</b>	<b>4.4</b>
UVs	5,399	0.7	6.4	43,682	1.4
Cars	14,342	-19.4	-11.0	160,096	-8.0
<b>Total Passenger</b>	<b>19,741</b>	<b>-14.8</b>	<b>-6.8</b>	<b>203,778</b>	<b>-6.1</b>

Source: Company

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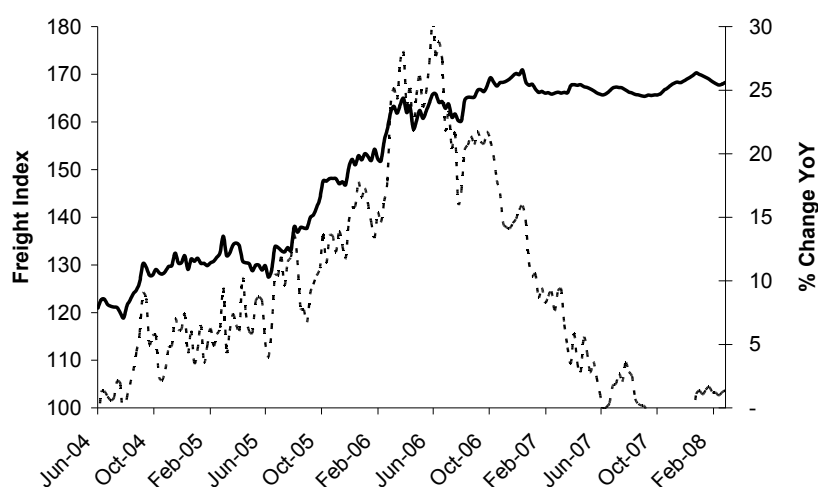
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See Appendix A-1 for Analyst Certification and important disclosures.

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<sup>1</sup>Citigroup Global Markets India Private Limited

Figure 2. Freight Index



Source: IFTRT

## Tata Motors

### Company description

Tata Motors is the flagship company of the Tata Group, India's largest business conglomerate, and is among the country's largest manufacturers of automobiles with a dominant position in the commercial-vehicle business. It has a significant presence in the utility vehicle and passenger-car segments.

### Investment strategy

We maintain our Buy/Low risk rating on Tata Motors as we believe Tata Motor's new products in commercial and passenger vehicles will help Tata Motors regain lost market share in the respective segments. We also believe that commercial vehicle demand will revive in FY09 due to new and replacement demand.

Key reasons for a strong growth outlook in commercial vehicles include a sustained pick-up in economic activity, a focus on infrastructure spending (expected to continue with funding in place) and a strong replacement cycle (27% of the existing fleet in India is more than 15 years old and needs to be replaced both for commercial and environmental reasons).

### Valuation

Our target price of Rs914 is based on a sum-of-parts valuation methodology, which we believe captures the value embedded in subsidiaries and group holdings. Management has indicated its intent to unlock value, (to the benefit of Tamo's existing shareholders), for either / both HV Transmissions Ltd. and HV Axles Ltd., through an IPO or strategic sale to outside parties.

We value Tata Motors' core business at Rs 657/share, which is based on 11x FY09E CEPS, at the lower end of the recent trading band, and which should be comfortably supported by a 21% CAGR in cash earnings over FY08-10E. Over the past fiscal, the CEPS multiple has ranged between 11.8-17.2x, with an average of 13.6x. We reverted to our original valuation methodology of valuing Tata Motors' core operations on CEPS – over the interim we had moved to an EV / EBITDA methodology to negate the impact of TAMO's financial services business on its core earnings and the balance sheet. But after the transfer of Tata Motors' vehicle financing business into a separate entity, we revert to our CEPS methodology. We value the subsidiaries at Rs257/share.

## **Risks**

We rate Tata Motors Low Risk based on our quantitative risk rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price are movements in economic variables — particularly GDP growth, interest rates and fuel prices, to which sales of commercial and passenger vehicles are very sensitive. Competition in the passenger car business remains intense with the presence of most global majors in the Indian market. While the commercial vehicle business has been relatively less exposed to competition, the situation could change over the next three years with international companies eyeing the Indian market. Key upside risks to our target price include: a) Strategic sale/IPO of key subsidiaries; b) An indication that the Supreme Court ruling on overloading is being implemented over the longer term; and c) Reduction in input costs (notably steel).

# Appendix A-1

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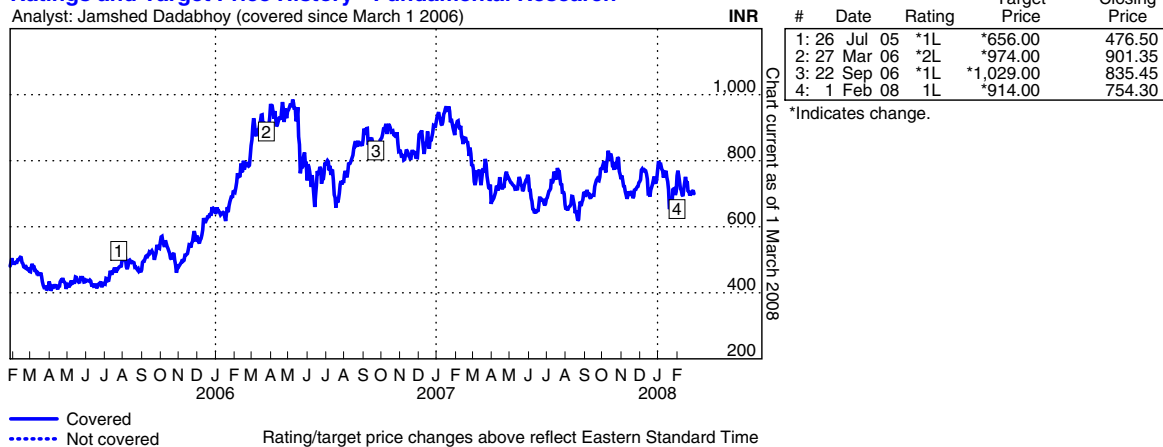
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Analyst: Jamshed Dadabhojy (covered since March 1 2006)



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