Company Focus

14 November 2008 | 17 pages

Tata Motors (TAMO.BO)

Rating change ☑
Target price change ☑
Estimate change ☑

Reiterating Hold: Macro Conditions Remain Negative

- **Reiterating Hold** — Despite a severe price correction, lack of clarity on Jaguar/Land Rover (JLR) and funding risks from refinancing $3bn of JLR debt will remain an overhang on TAMO's stock. The outlook for JLR has deteriorated, as LR sales shrink in key markets such as the US and EU. Our revised target price is Rs163. We are raising our risk rating to High, in line with our quant model.
- **Cutting recurring profits** — We are reducing recurring profits by 38% and 66% for FY09 and FY10E as we cut MHCV truck estimates by 27%/34%. Rampant overloading and slower IIP growth exacerbate concerns on the CV cycle. We are cutting EBITDA margin by 40bps in FY09e but raise it 50 bps in FY10e to reflect our revised house view on steel and aluminium, which we expect will come off sharply. Nano volumes cut by 80% in FY10e – factoring in transfer of the Nano plant to Gujarat. Consolidated profits cut by 69% and 37% in FY09/10e reflect a 13% and 26% cut in JLR volumes.
- **No inspiration from JLR volumes** — Jaguar volumes reported steady growth with YTD volumes rising 13%. Land Rover volumes were hit by recessionary headwinds with YTD volumes slipping 6%. Consequently, we are cutting JLR's EBITDA forecasts by 37% and 50% in FY09/10e.
- **Debt and funding obligations** — We forecast TTMT's debt equity at 1.2x (FY11e). Interest cover ranges at 1.1-2.0x (FY09-10e on consolidated estimates). We estimate the funding gap at Rs 50bn.

Hold/High Risk	**2H**
from Hold/Medium Risk	
Price (14 Nov 08)	Rs142.00
Target price	Rs163.00
from Rs473.00	
Expected share price return	14.8%
Expected dividend yield	3.5%
Expected total return	**18.3%**
Market Cap	Rs63,884M
	US$1,303M

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

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2007A	17,640	43.52	25.8	3.3	0.8	28.4	10.6
2008A	15,561	36.53	-16.1	3.9	0.7	21.2	10.6
2009E	9,056	17.61	-51.8	8.1	0.6	8.9	5.6
2010E	5,891	11.46	-34.9	12.4	0.6	4.7	3.5
2011E	9,195	17.89	56.1	7.9	0.5	7.0	3.5

Source: Powered by dataCentral

Jamshed Dadabhoy[1]
+91-22-6631-9883
jamshed.dadabhoy@citi.com

Hitesh Goel[1]
+91-22-6631-9852
hitesh.goel@citi.com

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

[1]Citigroup Global Markets India Private Limited

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	3.3	3.9	8.1	12.4	7.9
EV/EBITDA adjusted (x)	2.5	2.7	3.2	3.3	2.9
P/BV (x)	0.8	0.7	0.6	0.6	0.5
Dividend yield (%)	10.6	10.6	5.6	3.5	3.5
Per Share Data (Rs)					
EPS adjusted	43.52	36.53	17.61	11.46	17.89
EPS reported	47.21	47.63	19.28	11.46	17.89
BVPS	178.25	203.34	243.30	249.06	261.24
DPS	15.00	15.00	8.00	5.00	5.00
Profit & Loss (RsM)					
Net sales	268,103	280,604	262,289	263,585	321,472
Operating expenses	-248,299	-264,468	-252,403	-253,428	-305,075
EBIT	**19,805**	**16,135**	**9,886**	**10,158**	**16,397**
Net interest expense	-3,131	-2,824	-5,592	-9,257	-11,180
Non-operating/exceptionals	9,058	12,453	6,510	5,520	5,600
Pre-tax profit	**25,732**	**25,765**	**10,804**	**6,421**	**10,817**
Tax	-6,597	-5,476	-891	-530	-1,623
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**19,135**	**20,289**	**9,913**	**5,891**	**9,195**
Adjusted earnings	17,640	15,561	9,056	5,891	9,195
Adjusted EBITDA	26,518	23,302	17,669	19,628	27,315
Growth Rates (%)					
Sales	32.9	4.7	-6.5	0.5	22.0
EBIT adjusted	23.7	-18.5	-38.7	2.7	61.4
EBITDA adjusted	20.8	-12.1	-24.2	11.1	39.2
EPS adjusted	25.8	-16.1	-51.8	-34.9	56.1
Cash Flow (RsM)					
Operating cash flow	**25,848**	**27,456**	**17,696**	**15,361**	**20,113**
Depreciation/amortization	6,713	7,167	7,783	9,470	10,918
Net working capital	0	0	0	0	0
Investing cash flow	**-17,920**	**-53,339**	**-42,582**	**-32,581**	**-32,580**
Capital expenditure	-25,447	-47,744	-30,000	-20,000	-20,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**10,723**	**22,714**	**14,190**	**63,820**	**16,495**
Borrowings	10,723	22,714	14,190	63,820	16,495
Dividends paid	0	0	0	0	0
Change in cash	**18,650**	**-3,170**	**-10,697**	**46,600**	**4,028**
Balance Sheet (RsM)					
Total assets	**190,235**	**257,524**	**306,567**	**357,871**	**377,179**
Cash & cash equivalent	8,268	23,973	1,000	2,172	3,344
Accounts receivable	7,822	11,307	11,489	11,471	13,968
Net fixed assets	63,946	104,523	126,740	137,270	146,352
Total liabilities	**121,537**	**179,129**	**181,490**	**229,834**	**242,877**
Accounts payable	37,097	83,917	73,721	60,154	56,414
Total Debt	40,091	62,805	76,995	140,816	157,311
Shareholders' funds	**68,698**	**78,395**	**125,077**	**128,038**	**134,302**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.9	8.3	6.7	7.4	8.5
ROE adjusted	28.4	21.2	8.9	4.7	7.0
ROIC adjusted	18.4	13.2	8.7	7.0	9.5
Net debt to equity	46.3	49.5	60.8	108.3	114.6
Total debt to capital	36.9	44.5	38.1	52.4	53.9

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Reiterate Hold, Revising Share Price to Rs163

We are cutting our price target to Rs163 from Rs473, to reflect these revisions:

1. We cut our profits by 38-66% over the next two years for the standalone business to reflect sharp deceleration in industrial growth.

2. Paring multiple for base business to 4x Mar10e CEPS (at trough valuations) from 8x Sep09e CEPS which we believe will adequately reflect the decline in earnings (-16% CAGR) for the next 3 years.

3. Pare multiple for subsidiaries to reflect sharp downward revision in subsidiary earnings (-40-50%) over FY09/FY10e to reflect sharp deterioration in performance.

4. Reduce JLR multiple to 1.5x Dec 09e EV/EBITDA (from 2.5x Sep09e EV/EBITDA), which is at a notable discount to BMW (its closest competitor), which presently trades at 2.3x Dec09e EV/EBITDA. We have cut EBITDA by 37-50% over FY09/10e

Revising our risk rating

We are revising our risk rating from Medium to High, in line with the risk rating suggested by our model. Our reasons for revision are as follows:

1. The deterioration in TAMO's highest margin product line – ie MHCVs – is far higher than originally forecast. This will constrain core profitability and cash flows, despite lower input cost pressures. This in turn, increases refinancing risk.

2. As JLR's operating performance continues to deteriorate over the next 12 months, the adverse news flow will continue to impact TTMT's stock price – rendering it very volatile – as the market interprets the impact of negative volume performance on operating profits, based on incomplete information about JLR's cost structure. This risk should abate, once management provides more clarity on the subtler nuances of JLR over the next year.

3. Over the longer term, TAMO's revenue and earnings streams will depend on its performance in geographies such as India, the US, Europe, UK and emerging markets like China and Russia. While this provides a degree of diversification that is healthy, it also renders it difficult to forecast both revenues and earnings. In addition, accounting policies pertaining to issues like warranties, derivative accounting, pension adjustments, depreciation and amortisation policies (especially for goodwill), will ensure that it is difficult to forecast TAMO's consolidated earnings.

Figure 1. TAMO – Sum of the Parts Target Price Methodology

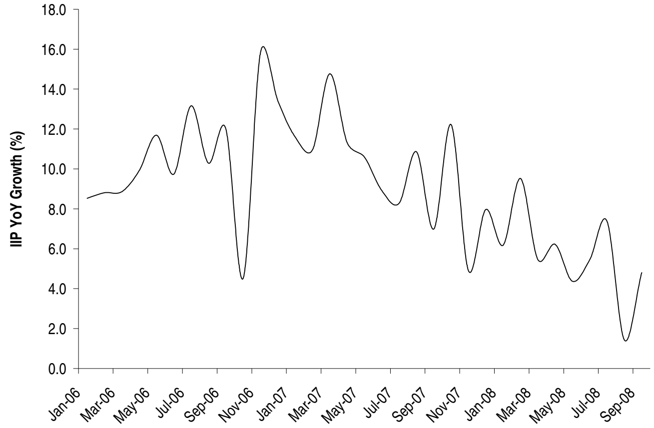
SOTP	Methodology	Equity Value	Diluted No of Shares	New Target Price (Rs/share)	Old Methodology	Old Diluted No of Shares	Old Target Price (Rs/share)	Comments
Base Business	**4x Mar 10E CEPS**	**15,361**	**514**	**120**	**8x Sep 09E CEPS**	**669**	**295**	**Factoring in 33% dilution due to rights issue offering from earlier 46% as we do not factor in the foreign equity offering in our estimates**
Subsidiary								
Tata Daewoo (100%)	6x Mar 10E EPS	1,327	514	15	10x Sep 09E EPS	669	22	
Tata Tech (81.7%)	6x Mar 10E EPS	395	514	5	15x Sep 09E EPS	669	6	
Telcon (60%)	8x Mar 10E EPS	1,123	514	17	15x Sep 09E EPS	669	60	
HVTL (85%)	6x Mar 10E EPS	212	514	2	10x Sep 09E EPS	669	5	
HVAL (85%)	6x Mar 10E EPS	293	514	3	10x Sep 09E EPS	669	6	
Tata Motor Finance (100%)	1x Mar 10E book	(114)	514	(0)	1x Sep 09E book	669	10	
Total Subsidiary Value(at 20% discount)				**35**			**87**	
JLR	1.5x Dec 09E EV/EBITDA	11,646	514	9	2.5x Sep 09E EV/EBITDA	669	91	Assuming $650mn of net debt (vs. $1bn previously) required for future working capital requirements and capex; at present JLR has approx 200 million of net cash on its books. The bridge loan of $3bn will be funded through the combination of equity and debt
Total Value				**163**			**473**	

Source: Citi Investment Research estimates, Note: Share count has been reduced to 514 million shares due to 1) We do not factor in foreign equity offering of $500 mn now and 2) No dilution assumed on account of the FCCBs maturing end FY11/12e.

Earnings Revision – Parent Business

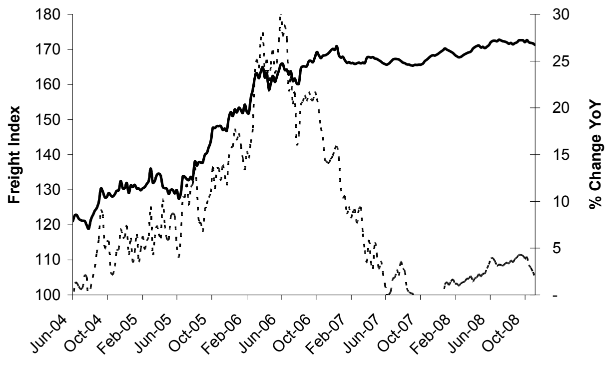
TAMO's domestic business has decelerated far more than initially envisaged. Our cut in MHCV / LCV forecasts reflects the slowdown in the industrial economy. Our reduction in passenger car / UV volume forecasts is primarily on account of the delayed launch of the Nano.

Figure 2. IIP YoY Growth (%)



Source: CSO

Figure 3. Freight Index



Source: TCI

Figure 4. Domestic Business – Volume Revision Table

	Old FY09	New FY09	% YoY Chg	Old FY10	New FY10	% YoY Chg	Old FY11	New FY11	% YoY Chg
MHCVs	191,506	140,752	-26.5	209,841	138,357	-34.1	221,531	150,793	-31.9
LCVs	192,947	172,386	-10.7	210,171	173,092	-17.6	214,935	193,959	-9.8
UVs	56,336	47,534	-15.6	61,970	49,910	-19.5	66,307	54,901	-17.2
Cars	209,702	172,836	-17.6	404,593	223,611	-44.7	514,823	389,406	-24.4
Total Volumes	**650,491**	**533,508**	**-18.0**	**886,574**	**584,971**	**-34.0**	**1,017,596**	**789,058**	**-22.5**

Source: Citi Investment Research estimates

Figure 5. Segmental Revenue Split – Domestic Business

Segments	**FY08**	**FY09e**	**FY10e**	**FY11e**
MHCVs	160,291	136,951	134,621	156,991
LCVs ex ace	33,578	29,919	19,416	27,666
ACE	22,292	25,747	30,897	34,064
Cars	56,303	52,868	53,847	61,612
Nano	-	569	4,840	20,716
UVs	29,012	29,396	30,757	35,058
Total	**301,476**	**275,452**	**274,379**	**336,107**
% of sales split				
MHCVs	53.2	49.7	49.1	46.7
LCVs ex ace	11.1	10.9	7.1	8.2
ACE	7.4	9.3	11.3	10.1
Cars	18.7	19.2	19.6	18.3
Nano		0.2	1.8	6.2
UVs	9.6	10.7	11.2	10.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Citi Investment Research estimates

We cut our profit forecasts by 38-66% over FY08-FY11e factoring in:

1. 27-34% downward revision in our MHCV volume estimates, given deceleration in the industrial economy

2. Cut margins by 40 bps in FY09e (again, on account of lower growth) but increase margins by 50 bps in FY10e (which reflects our assumption of sharp fall in steel costs)

3. Sharp rise in interest costs in the domestic business (again, on account of rising interest costs to factor in the incremental debt that will be raised - Rs 50 bn – to refinance the JLR loan + deteriorating credit quality which will heighten borrowing costs).

4. We believe Tata Motors will find it extremely difficult to raise debt and equity from foreign markets due to tight credit conditions. We rule out a stake sale in subsidiaries, considering the state of equity markets, though we do believe that there could be some dilution of Tata Motors' stake in Tata Technologies – either to group companies or to external parties, given that the integration of the business with Incat is proceeding at a very satisfactory pace.

5. Tax rates lowered to reflect our assumption that the company will be on MAT for the next two years.

Figure 7. JLR Bridge Loan: Funding Plan

	Rs mn
Bridge Loan for JLR	135,000
Proceeds from Rights Issue	41,458
Residual stake in Tata Steel	4,117
Book value of mutual fund investments	7,908
JLR's working capital debt	31,500
Funding Gap	**50,017**

Source: Company, Citi Investment Research

Figure 6. Earnings Revision Table, Standalone Business

	Old FY09	New FY09	% YoY Chg	Old FY10	New FY10	% YoY Chg	Old FY11	New FY11	% YoY Chg
Net Sales	323,818	262,289	-19.0	383,521	263,585	-31.3	438,763	321,472	-26.7
EBITDA	25,316	17,669	-30.2	31,660	19,628	-38.0	36,332	27,315	-24.8
Margin (%)	7.8	7.4	-40 bps	8.3	8.8	+50 bps	8.3	9.9	+160 bps
Interest Costs	4,390	5,592	27.4	4,380	9,257	111.4	3,904	11,180	186.4
PBT	16,870	10,804	-36.0	22,191	6,421	-71.1	26,194	10,817	-58.7
Tax	4,049	891	-78.0	5,104	530	-89.6	5,763	1,623	-71.8
Recurring PAT	**14,531**	**9,056**	**-37.7**	**17,087**	**5,891**	**-65.5**	**20,431**	**9,195**	**-55.0**

Source: Citi Investment Research estimates

JLR: Difficult Times Continue

JLR's volumes continue to shrink at a faster-than-anticipated pace. While momentum generated by the new Jaguar XF continues to drive positive volume growth for J (YTD till Oct08 volumes +13%), the sharp deceleration in LR's volumes (especially in the US and EU, YTD till Oct08 -6%) is a concern.

Figure 8. JLR – Volume Revision Table

	CY08e			CY09e		
	Old	New	% YoY Chg	Old	New	% YoY Chg
Jaguar	65,641	60,920	-7.2	68,923	51,782	-24.9
% YoY chg	10.0	9.0		5.0	(15.0)	
Land Rover	232,780	197,756	-15.0	239,763	177,980	-25.8
% YoY chg	3.0	(15.0)		3.0	(10.0)	
Total Volumes	**298,421**	**258,676**	**-13.3**	**308,687**	**229,762**	**-25.6**
% YoY chg	4.5	(10.4)		3.4	(11.2)	

Source: Citi Investment Research estimates

Jaguar and Land Rover's combined operations face significant headwinds. We expect Jaguar's turnaround to continue – volume growth will be volatile, but we expect a mix shift to beneficially impact profitability. Our concerns hinge around Land Rover – which is over 80% of the JLR-combine revenues and over 90% of the EBITDA of the JLR combine (based on CY07e estimates). LR's negative volume growth will continue to impact profitability of the overall combine. It will be challenging for LR to report volume growth on an overall basis, despite strong growth from markets like China, Russia and Latam.

Figure 9. Jaguar Volumes – Geographical Break Up

Jaguar	CY06	CY07	CY07YTD (Till Sep)	CY08YTD (Till Sep)	% change YoY
US	22,648	16,192	13,047*	13,380*	2.6%
UK	23,165	18,845	15,449	17,046	10.3%
Europe (excl UK)	13,844	10,580	11,277	13,912	23.4%
Russia	893	1,135	793	1,321	66.6%
China	1,040	846			
Germany	4,215	3,719			
Rest of the world	9,148	8,357			
Total	**74,953**	**59,674**			

Source: Citi Investment Research, Wards Auto, ACEA, Note: *US Volumes are till Oct08

Figure 10. Land Rover Volumes – Geographical Break Up

Land Rover	CY06	CY07	CY07YTD (Till Sep)	CY08YTD (Till Sep)	% Change YoY
US	48,772	50,321	40,311*	25,144*	-37.6%
UK	42,793	45,682	38,260	28,958	-24.3%
Europe (excl UK)	51,264	58,327	42,835	29,370	-31.4%
Russia	6,299	12,606	8,388	16,045	91.3%
China	2,930	3,481			
Germany	7,047	8,245			
Brazil	1,958	2,719			
Australia	3,392	3,708			
South Africa	4,553	5,743			
Rest of the world	24,632	35,168			
Total	**193,640**	**226,000**			

Source: Citi Investment Research, Wards Auto, ACEA, Note: *US Volumes are till Oct08

Given the high degree of operating leverage embedded in this business – profitability could contract significantly. Directionally, we expect SUV / auto sales to remain subdued over the next 1-2 years (as evidenced in the previous 'oil shocks') – this doesn't augur well for LR.

Figure 11. JLR – Quarterly Financials (USD mn)

	1QCY08	Apr-May 08	June2-June 30, 2008
Volumes	74,000	51,000	24,172
Realizations	56,014	55,471	55,477
Revenues	4,145	2,829	1,341
Pre Tax profits (before special items)	421	75	62
Pre Tax margin (%)	10.2	2.7	4.6

Source: Ford reports, Note: Tata Motors completed acquisition of JLR on 2^{nd} June 08

Capital Expenditure Plans, Debt – Equity Structure & Cash Flows

We are cutting our capex outlay forecasts

We forecast TTMT's capital outlay will be Rs70bn over FY09-11e. We have cut this from Rs90bn based on our view that management will curtail expansion of physical capacities. Management indicated in the 2Q conference calls that it might defer creation of capacities. We expect this to occur, especially if the macro environment remains challenging.

Overall debt-equity ratios will likely remain high

We forecast overall debt – equity ratio in TTMT's books to escalate to 1.2x by FY11e. This includes the debt raised to refinance the JLR debt – but excludes JLR's networth. Debt – equity should be a very manageable 0.6x end FY09e, but we expect this to spike over FY10/11e as TTMT raises fresh debt to refinance the short term JLR debt. JLR's net worth remains an imponderable, especially after revaluation of the pension fund liabilities in Apr09, which could negatively impact net worth. Our computation of debt equity excludes the debt in the vehicle financing business, backed by the asset receivables.

Debt/EBITDA and interest coverage will also remain strained. For TTMT, we forecast that debt / EBITDA will rise from 2.7x (end FY08) to around 7.2x (end FY10) before declining to around 5.8x in FY11 (as EBITDA rises, rather than a decline in debt levels). Interest cover ratios will also rise sharply – we forecast coverage will decline from a very healthy 8.2x (FY08) to around 2x in FY10e.

Refinancing of FCCBs – not a short-term concern

TTMT has around $890m of convertible debt/equity market linked securities that are due in CY11-12e. Over FY09-10e, there are no meaningful debts falling due – refinancing risk is thus relatively low. Given that the share price is far lower than the conversion price, we don't assume that the $890m will be converted into equity shares – instead, we assume the debt will be refinanced as it matures. The reduction in our diluted share count reflects this assumption.

Operating Cash flows – constrained due to decline in core business

We forecast internal cash accruals of around Rs50bn (FY09-11e). Working capital changes are difficult to discern – exacerbated by a) a marked slowdown in business that could impact movement in finished goods, and b) changes in the residual loan book of the vehicle financing business. Overall, we forecast working capital will utilise around Rs47bn of internal accruals – though we might be incorrect in our assessment – as it depends on the controls that management adopts. If management sells down vehicle receivables, it could generate around Rs20bn over the next 3 years. As stated above, our capex outlay has been cut to around Rs70bn. To fund this, as also the incremental investments in JLR, we assume that Rs95bn of fresh debt will be raised.

Figure 12. Tata Motors Standalone – Profit and Loss Statement (Rs mn)

	FY 2007	FY 2008	FY 2009E	FY 2010E	FY 2011E
Volumes (Nos)	578952	585649	533508	584971	789058
% change YoY	27.5	1.2	-8.9	9.6	34.9
Gross sales & operational income	311,598	324,235	301,227	300,969	366,264
% change YoY	32.2	4.1	(7.1)	(0.1)	21.7
Excise duties	43,495	43,631	38,939	37,384	44,792
% of sales	14.0	13.5	12.9	12.4	12.2
Net sales & operational income	268,103	280,604	262,289	263,585	321,472
% change YoY	32.9	4.7	-6.5	0.5	22.0
Raw material expenses	190,253	202,307	188,928	185,638	223,178
% of net sales	71.0	72.1	72.0	70.4	69.4
Manpower costs	13,678	15,446	16,542	17,891	19,143
% of net sales	5.1	5.5	6.3	6.8	6.0
Other variable expenses	21,401	24,429	24,275	24,510	34,064
% of net sales	8.0	8.7	9.3	9.3	10.6
Fixed expenses	22,024	26,434	28,876	28,919	30,772
% of net sales	8.2	9.4	11.0	11.0	9.6
Expenses capitalized	5,771	11,314	14,000	13,000	13,000
Cost of sales	241,586	257,302	244,620	243,958	294,156
% of sales	90.1	91.7	93.3	92.6	91.5
Operating profit	**26,518**	**23,302**	**17,669**	**19,628**	**27,315**
Interest	3,131	2,824	5,592	9,257	11,180
Other income	7,048	6,449	6,386	5,520	5,600
EBDT	30,435	26,927	18,463	15,891	21,736
Depreciation	6,713	7,167	7,783	9,470	10,918
Exceptionals	2,010	6,004	124	-	-
PBT	25,732	25,765	10,804	6,421	10,817
Tax	6,597	5,476	891	530	1,623
PAT	19,135	20,289	9,913	5,891	9,195
PAT (pre exceptionals)	**17,640**	**15,561**	**9,056**	**5,891**	**9,195**
Profit Margins (%)					
OPM / Net sales (%)	9.9	8.3	6.7	7.4	8.5
EBDT (%)	9.8	8.3	6.1	5.3	5.9
Pre tax margins (%)	8.3	7.9	3.6	2.1	3.0
Tax / PBT (%)	25.6	21.3	8.3	8.3	15.0
Net profit margins (%)	6.6	5.5	3.5	2.2	2.9
EPS FD (Rs)	43.5	36.5	17.6	11.5	17.9
CEPS FD (Rs)	60.1	53.4	32.8	29.9	39.1
Book value FD (Rs)	169.5	184.0	241.0	244.5	253.3

Source: Company, Citi Investment Research estimates

Figure 13. Tata Motors Consolidated – Profit and Loss Statement (Rs mn)

	FY06	FY07	FY08	FY09E	FY10E
Net sales & operational income	**237,695**	**323,612**	**356,515**	**689,121**	**850,418**
% change YoY		36.1	10.2	93.3	23.4
Cost of sales	**207,212**	**282,468**	**312,406**	**648,514**	**800,142**
% of sales	87.2	87.3	87.6	94.1	94.1
EBITDA	**30,483**	**41,144**	**44,109**	**40,608**	**50,276**
Product Development	717.7	850.2	660	-	-
Interest	2,460	4,058	7,431	11,531	18,483
Other income	2,435	1,532	2,675	6,601	5,710
EBDT	29,740	37,768	38,693	35,678	37,503
Depreciation	6,233	6,881	7,821	19,704	28,574
Exceptionals	17	652	1,376	124	-
PBT	23,490	30,235	29,496	16,098	8,929
Tax	6,400	8,832	8,515	2,901	2,541
PAT	17,090	21,402	20,981	13,197	6,388
Adj of Misc Exp	(25)	(7)	(10)	(858)	-
Minority Interest and share of profits from associate cos	(216)	348	670.5	948	926
PAT (pre exceptionals and after minority interest)	**17,336**	**21,509**	**21,280**	**11,392**	**5,462**
Profit Margins (%)					
OPM / Net sales (%)	12.8	12.7	12.4	5.9	5.9
EBDT (%)	12.5	11.7	10.9	5.2	4.4
Pre tax margins (%)	9.9	9.3	8.3	2.3	1.0
Net profit margins (%)	7.3	6.6	6.0	1.7	0.6
EPS FD (Rs)	42.8	53.1	50.0	22.2	10.6
CEPS FD (Rs)	58.1	70.0	68.3	60.5	66.2

Source: Citi Investment Research estimates, Note: JLR is consolidated for 7 months in FY09e

Figure 14. Tata Motors: JLR – Profit and Loss Statement (USD mn)

	CY06	CY07	CY08e	CY09e
Jaguar Volumes	71,006	55,890	60,920	51,782
Land Rover Volumes	192,108	232,654	197,756	177,980
Volumes	263,114	288,544	258,676	229,762
% Change YoY		9.7	-10.4	-11.2
Average Realizations	49,290	51,784	50,814	50,915
% Change YoY	8.6	5.1	-1.9	0.2
Sales	**12,969**	**14,942**	**13,144**	**11,698**
% Change YoY	4.1	15.2	-12.0	-11.0
COGS	10,909	11,871	10,673	9,292
% of Sales	84.1	79.4	81.2	79.4
Gross Profit	2,060	3,071	2,471	2,407
Margin (%)	15.9	20.6	18.8	20.6
Marketing and Selling	1,057	1,069	1,031	914
% of Sales	8.2	7.2	7.8	7.8
R&D	683	829	840	870
Admin	360	352	253	225
% of Sales	2.8	2.4	1.9	1.9
Other	66	216	200	100
EBITDA	**26**	**1,037**	**548**	**499**
% of Sales	0.2	6.9	4.2	4.3
Depreciation	383	387	405	405
EBIT	(357)	650	143	94
Interest Expense	133	134	175	175
PBT	(490)	516	(32)	(81)
Income tax	1,263	(571)		
Spl Items	(1,487)	1,093		
PAT	**(714)**	**1,038**	**(32)**	**(81)**

Source: Company Reports, Citi Investment Research estimates

Tata Motors

Company description

Tata Motors is one of the main companies of the Tata Group, India's largest business conglomerate. It 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 too. The company has acquired a 100% stake in Jaguar and Land Rover.

Investment strategy

We rate Tata Motors Hold/High Risk (2H) as: 1) the global macro-economic environment continues to deteriorate, especially in the US and UK, which account for 45-50% of revenues. 2) lack of clarity on JLR financials will hit its valuations. As a stand-alone marquee player, we cannot see how JLR (as a combine) can trade at valuations higher than BMW, Porsche and Daimler. This implies capping valuation at 2.5-3x EV/EBITDA. 3) TAMO's fundraising plans resulted in substantial dilution. Overall share capital rose 34% to 514m shares. We don't account for dilution from the convertible debt securities – assuming these will be repaid per terms (end FY11/FY12e). 4) The domestic business faces economic deceleration weakening demand, especially the CV business, which is over 50% of revenues. We expect the passenger car business will face intense competitive pressures, limiting pricing power and lowering profitability.

Valuation

Our Rs163 target price is based on a sum-of-the-parts valuation. We value Tata Motors' core business at Rs120/share on diluted count of 514m shares, based on 4x Mar FY10E CEPS. This deviates from peers like Maruti, but in line with TAMO's trough valuations. At our target price, the core business trades at 10.3x FY10 EV/EBITDA – higher than past trough valuations (around 3.2x times), but this due to debt raised to refinance JLR debt. We value subsidiaries and investments at Rs35/share. This arises from a sharp cut in profits of key subsidiaries like Telcon, and given paring of multiples to 6x P/E. We attribute Rs9/share to JLR based on 1.5x Dec09 EV/EBITDA, a discount to peers such as Daimler, Porsche and BMW, which trade at 2-2.5x CY09E EV / EBITDA. The $3bn bridge financing is not deducted from EV. It reflects our view that the debt will be replaced by cash from TTMT's fundraising. However, we have factored in the cost of the bridge loan in our JLR estimates for CY08 and CY09.

Risks

Our quantitative risk rating system, which tracks 260-day historical share price volatility, rates Tata Motors High Risk. Key downside risks to our target price are: a) movements in economic variables - particularly GDP growth, interest rates, inflation and fuel prices, to which sales of commercial and passenger vehicles are very sensitive. If interest rates rise further, there could be more downside to our current estimates; b) 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; and c) The JLR combine is in restructuring mode – the risk emanates from the restructuring benefits being lower than forecast, as also one - off exceptional items impacting profitability and earnings. Key upside risks to our target price are as follows: 1) Positive news flow on JLR's volume growth; 2) Greater than forecast margin expansion at JLR on account of a richer product mix; 3) Equity dilution is less than earlier envisaged through a substantial change in funding structure like the non convertible debenture issue with a detachable warrant done by Indian Hotels recently; 4) Divestment of a strategic stake in JLR to private equity players or an OEM like Fiat, which would enable JLR to raise funds and mitigate the capital raising programme in JLR.

Appendix A-1

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Tata Motors (TAMO.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Jamshed Dadabhoy
Covered since March 1 2006

	Date	Rating	Target Price	Closing Price
1	27-Mar-06	*2L	*974.00	901.35
2	22-Sep-06	*1L	*1,029.00	835.45
3	1-Feb-08	1L	*914.00	754.30
4	28-May-08	1L	*791.00	634.75
5	8-Jun-08	*1M	*673.00	540.05
6	31-Jul-08	*2M	*473.00	403.25

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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