September 15, 2011

Buy
Tata Motors

LKP
Since 1948

Industry: Auto and Auto Components	Industry View: Neutral

"Near term concerns priced in"

MHCV demand to remain muted in FY 12, LCV demand to provide support

In view of the macro headwinds impacting industrial output and slowing of the economy, we believe MHCV demand will witness a mid single digit growth in FY 12. However, we believe FY 13 will witness reversal in the current trend in MHCV with strong infra plans in the pipeline. Also consumption centric LCV demand will remain buoyant as this segment is bucking the trend in CV industry. Tata Motors being the market leader in both the businesses will be the single largest beneficiary from the trend reversal in MHCV demand and continued strength in LCV industry. We forecast MHCV/LCV volumes to grow at 7%/ 9% and 17%/13% in FY12E/FY13E respectively.

JLR demand to improve on a refreshed portfolio

Land Rover sales are expected to continue the dream run on the back of the recent launch of Evoque,which has already amassed 20,000 booking orders. Jaguar demand was impacted due to lack of smaller engine offerings as the market moved towards<3l engines. With the July launch of Jaguar XF 2.2l we believe the sharp fall observed in Jaguar in the past few months would get mitigated. We expect JLR to post 9%/11.4% growth in FY12E/FY13E at 0.265/0.295 mn units.

China, Russia and other developing economies to offset the Euro zone underperformance

Geographically, US, UK and Euro zone will witness pressures considering the economic instability, while China (36,000 units in FY 12E), Russia and other developing countries like Brazil, India, South Africa etc will drive overall growth. We expect UK and Euro zone to post negative growth in FY 12E, while posting lower single digit growth in FY 13E. China (35%/25% in FY 12E/13E), Russia (50%/30% in FY 12E/13E) and ROW (35%/20% in FY12E/13E) countries will provide the required impetus to volumes.

Margins to fall on both macro and micro issues in coming quarters, but would improve in FY 13E

Higher ASPs in JLR business in China will mildly improve profitability, although margins will witness pressure due to adverse currency movement, annual RM contracts taken at higher prices, incentives provided mainly in the US and higher R&D spend. In the domestic passenger car business the company is rapidly losing market share and pricing power due to which margins will witness pressure. In FY 13E, as macro pressures ease with interest rates stabilizing, and the company starts getting benefit of the easing RM costs and new launches, we expect margins to improve. We factor in 11.3%/ 11.6% EBITDA margins in FY 12E/13E.

Valuation

Tata Motors, we believe at current levels factors near term concerns. We have valued the company on SOTP basis - Standalone business at 5.5x times FY 13E EV/EBITDA at ₹86, JLR at 3x times FY 13E EV/EBITDA at ₹110 and subsidiaries at ₹19, thus arriving at a target of ₹172, an upside of 21% and rate the stock a BUY.

Stock Data

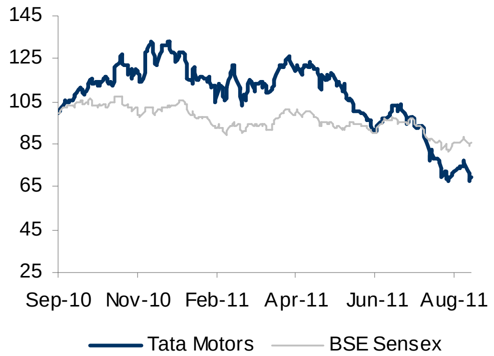
Current Market Price (₹)	142
Target Price (₹)	172
Potential upside (%)	21
Reuters	TAMO.BO
Bloomberg	TTMT IN

Key Data

Market Cap (₹bn)	390
52-Week Range (₹)	276 / 138
Avg. Daily Trading Value (₹mn)	2,649
Promoters (%)	35
FII Holding (%)	23
DII Holding (%)	14
Public & Others Holding (%)	28

Y/E March	FY10	FY11	FY12E	FY 13E
Revenues(₹mn)	925,193	1,231,333	1,410,854	1,598,391
EBITDA (%)	9.85	14.44	11.27	11.63
PAT (%)	3.0	7.3	5.0	5.6
EPS (₹)	8.42	27.09	21.30	27.01
EPS growth (%)	N/A	221.8	-21.4	26.8
P/E (x)	16.9	5.2	6.7	5.3
P/B(x)	5.8	2.5	1.8	1.4
EV/EBITDA (x)	8.1	3.9	4.1	3.3
ROCE(%)	42	71	47	47
ROE(%)	34	47	27	26
Dividend yield (%)	2.1	3.1	2.0	3.2

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	(11)	(28)	(30)
BSE Relative	(10)	(19)	(16)

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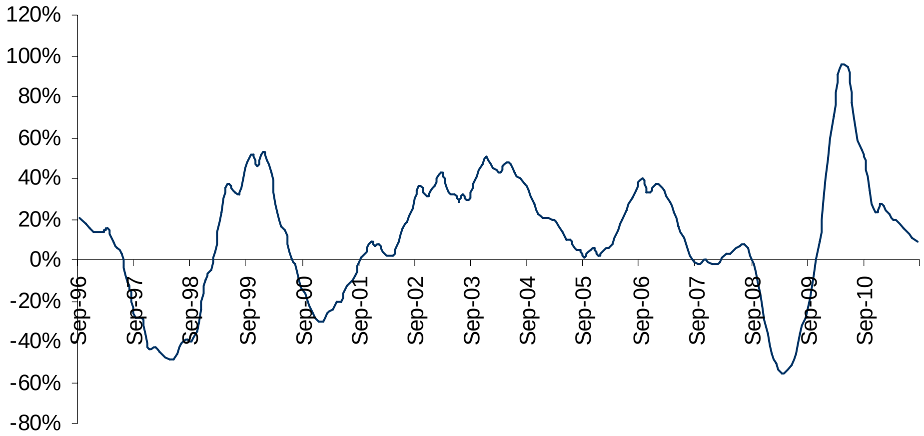
Domestic business – LCVs sail, PVs fail

Domestic CV business faces macro challenges, though the company is maintaining its hegemony

The significant hike in fuel prices coupled with 10 consecutive interest rate hikes in 2 years has led to a slowdown in the CV industry. No significant hike in freight rates along with scarcity of truck drivers has resulted into reduction of profitability of fleet operators. Slowdown in capital outlay and infrastructure expenditure of the country has resulted in reduction in demand for MHCVs. Tata Motors, the biggest commercial vehicle player in India has continued to be the dominant player in this space since last 5 years and has maintained its market share in both MHCV and LCV businesses above 60 % despite the slowdown in the industry and competition building up. The growth rate has definitely come off from the 25%+ observed in FY 11, but it is still in the territory of 7%.

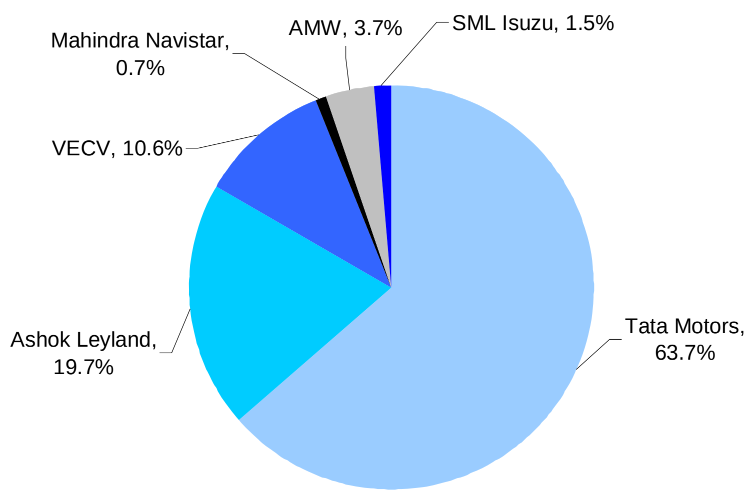
Average 6 monthly growth rate of MHCV industry (% yoy)



Source: Company , LKP Research

As far as competition is concerned, new players such as VE Commercial Vehicles, the joint venture between Volvo and Eicher Motor's CV business are gaining market shares. However, this gain is not at the cost of Tata Motors, but is eroding the market share of Ashok Leyland. On the goods carrier side, Tata Motors has increased its market share from 62.3% to 63.68% in the period between April-August 2011 on a yoy basis, while Asia Motor Works has increased it from 2.31% to 3.73% and VECV has increased from 9.61% to 10.59% during the same period. Ashok Leyland has lost a significant market share from 24.27% to 19.70% in that period. On the inventory management side, the company has inventory days of 2.5weeks.

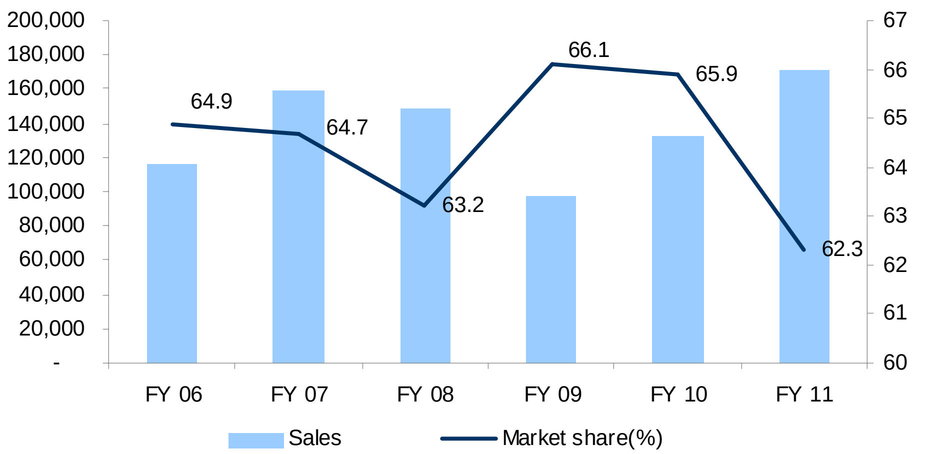
MHCV market share (April -August 2011)



Source: Company , LKP Research

Going forward, upcoming launches from M&M, VECV and Ashok Leyland will lead to stiffening of competition in the MHCV space leading to market share pressure on Tata Motors, however, the proliferation of the recent Prima launches and other new launches/ variants will help Tata Motors to arrest the decline in market share and to maintain its hegemony in the MHCV industry.

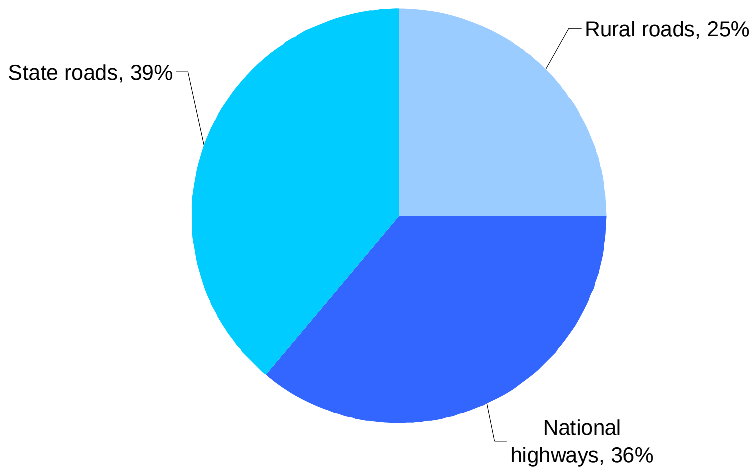
MHCV sales and market share movement



Source: Company , LKP Research

Although volumes in FY 12 will remain muted, we believe it will normalise in FY 13 given the ambitious rural and urban development plans chalked out. It is estimated that ₹5,000 bn would be invested in India in the next five years for road development. This investment boom will augur well for the CV demand in FY 13 as interest rates stabilize and the current slowdown reverses.

Composition of infrastructure outlay of Rs 5000 bn

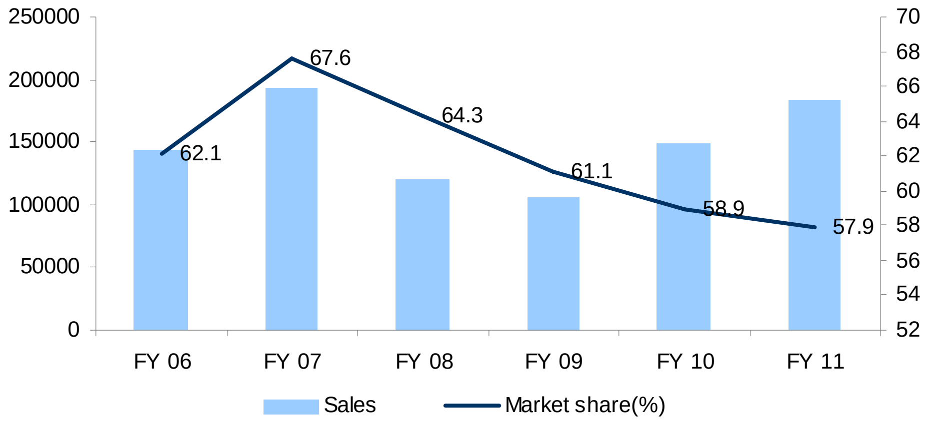


Source: Industry , LKP Research

LCV business to remain strong with capacity expansion and persistent demand for ACE despite competition

The LCV segment has been bucking the trend in the CV industry ever since 2008 where it was the first sector to make a comeback after the downfall. Unlike MHCVs, LCV segment is neither directly related with the economic condition of the country, nor with the infrastructure development. It is directly proportional to the growing consumption story of India and last mile transportation. The maximum utility of LCV is in rural India where affordability of MHCV is an issue and the cargo to be moved is of lesser quantity and non-bulky nature such as crop, milk, consumer durables etc. Therefore, despite a slowdown in the MHCV industry, we believe LCV industry will buck the trend in the CV industry.

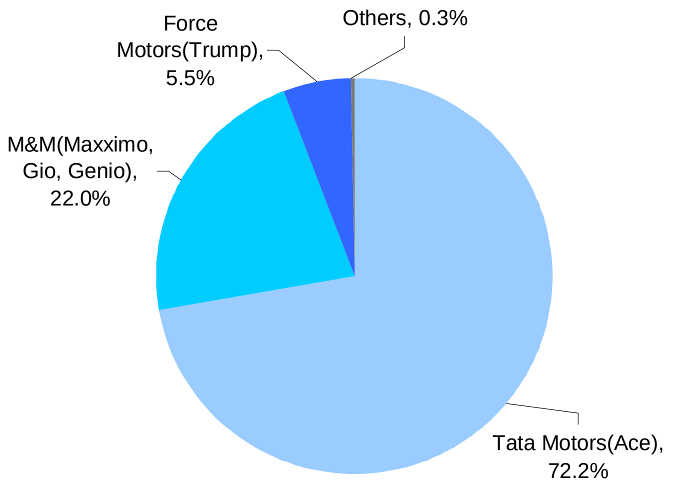
LCV sales and market share movement



Source: Company , LKP Research

Tata Motors with its sub 1 tonner flagship product Ace has been commanding leadership position in the LCV segment (SCV sub-segment to be specific). Within LCV, the SCV segment i.e. the sub 2 tonne segment is contributing 62% of the total LCV segment and is the main growth driver. However, off late, Tata Ace has been feeling pressure on its market share due to the success of Mahindra Maxximo. In the period between April-July 2011, Tata Motors' market share in the SCV segment has slightly reduced from 74% to 72.2%, while M&M's market share has moved up from 19.4% to 22%. The company produces Ace and its variants like Ace Zip from the Pantnagar plant where the capacity is of 1,50,000 p.a. (functioning at 100% utilization rate) and can be increased by another 50,000 p.a. through debottlenecking. Tata Motors is coming up with another plant for Tata Ace at Dharwad, Karnataka with a capacity of another 1,50,000 p.a. to come on stream by the end of FY 12E. These initiatives will definitely augur well for Tata Motors to improve their market share in the coming years and combat the growing competition.The success of LCV business can be verified from the fact that Tata Motors' LCV business has zero inventory days.

Market share in SCV segment (April -August 2011)

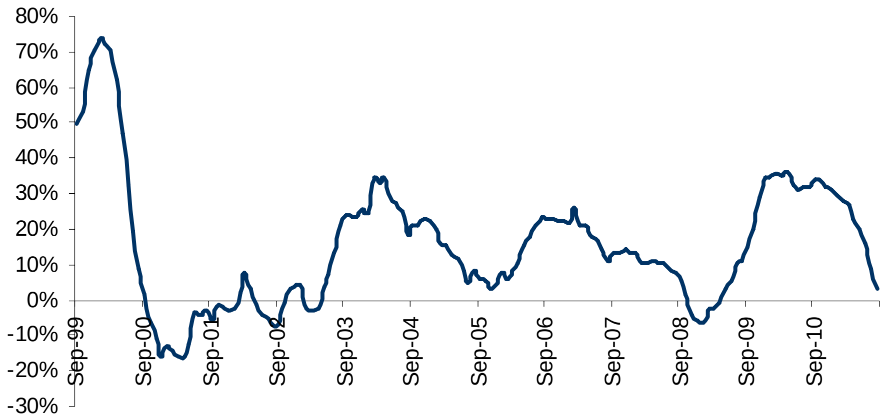


Source: Company , LKP Research

PV business underperforms, no sudden revival expected due to macro concerns and competition

Tata Motors' passenger vehicle (PV) business has been going through a rough patch as the entire Tata brand of PV has taken a beating in the last few months. The sector already grappling with macro concerns like rising interest rates, fuel prices and rising raw material prices is seeing slowdown in growth. As far as Tata Motors is concerned, competition from new players, weak portfolio, absence in premium hatchback segment and lack of new product launches is troubling the company. The company's car segment which has four models in the form of Indica, Indigo, Indigo Manza and Nano are all facing tough times due to success of rival new launches. In the hatchback cars segment, Indica and Indigo are facing severe erosion in market share (15% in April-August 2011 period v/s 17.5% yoy) as new entrants such as Ford Figo, GM Beat, Nissan Micra, VW Polo are scoring well in the eye of consumers as compared to limited and mature portfolio of Tata Motors. In the sedan segment, Indigo Manza has been performing poorly as Hyundai's new Fluidic Verna and VW Vento have made a big dent in Manza's market share(13.1% MS in April-August 2011 period from 31.1% yoy). On the UV side, Tata Motors is facing tough competition from M&M, GM and Toyota. In spite of recent new launches of Aria, Tata Motors is unable to threat the rival camp.

Average 6 monthly growth rate of PV industry (% yoy)

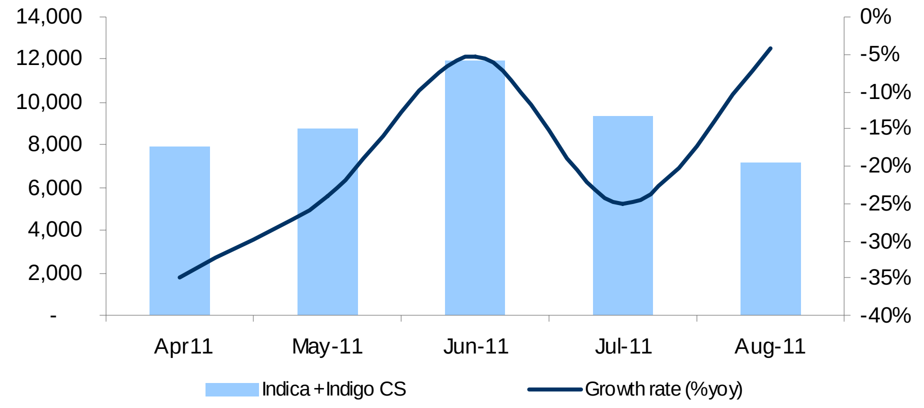


Source: SIAM , LKP Research

Underperformance in diesel portfolio to continue

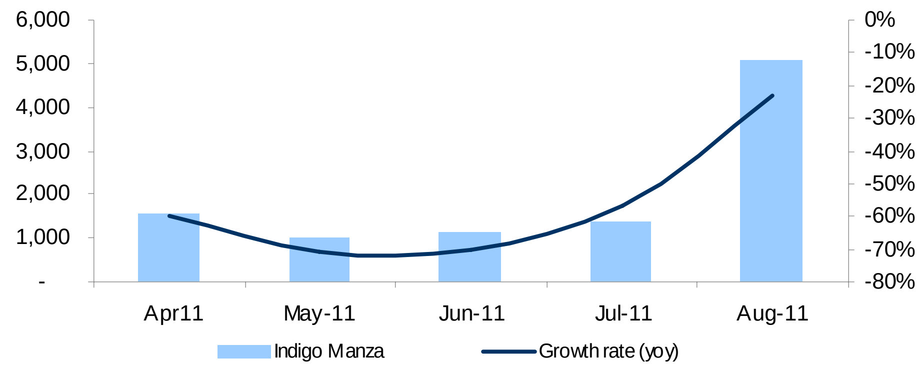
In spite of having a good diesel portfolio, Tata Motors has not been successful in taking advantage of the industry trend of shifting towards diesel cars as the company is absent in the rapidly growing premium hatchback segment(30% of total car volumes v/s 13% five years back). The company needs good products in the premium hatchback segment to regain its lost pride in the PV segment. There is no such move on the cards, given which we believe the underperformance of Tata Motors in this segment will continue over coming period. As far as profitability is concerned, PV segment did marginally break even at the EBITDA level, which was evident from 8.5% margins of standalone business in Q1 FY12, mainly due to Nano and competition to the PV portfolio excluding Nano. In order to maintain margins, the company has taken a 2% price hike on the CV side in July. As far as inventory management is concerned, the company has reduced its inventory days from 50 days to 21 days post the recent realignment of production.

Indica + Indigo CS volume trend



Source: SIAM , LKP Research

Indigo Manza volume trend

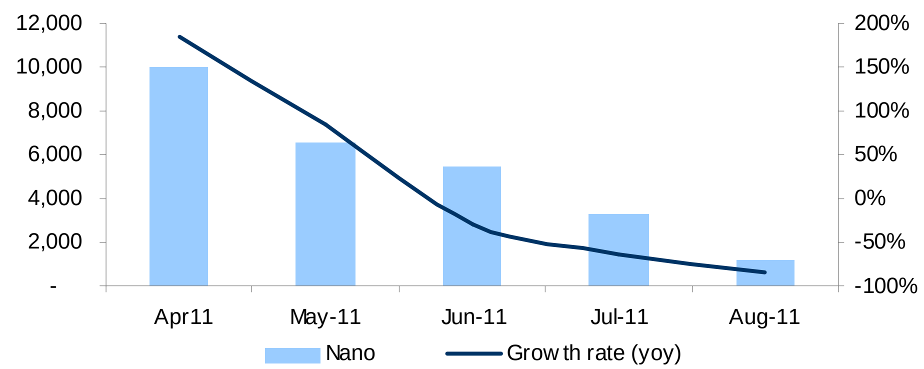


Source: SIAM , LKP Research

Nano – a big disappointment

Nano has been reporting inconsistent wholesale volumes ever since its launch. Off late, the model has started facing a consistent decline in sales and has dropped to 1200 mark in August. The company had taken a 15 day shutdown at the plant to realign production and inventory levels. However, the company has mentioned that the retail volumes are close to 6,500 units per month. We believe safety concerns, lack of proper marketing & distribution and perception of consumer of a 1 lakh car now costing more than ₹1.5 lakh are some of the deterring factors for the failure of Nano. Improved marketing efforts, reach and exports may help the company to revive the small car business. Currently there are 20,000 units of Nano as inventory between the company and the dealers. To promote Nano sales, the company is setting up 300 exclusive Nano dealers in Tier 3 and 4 cities.

Nano volume trend



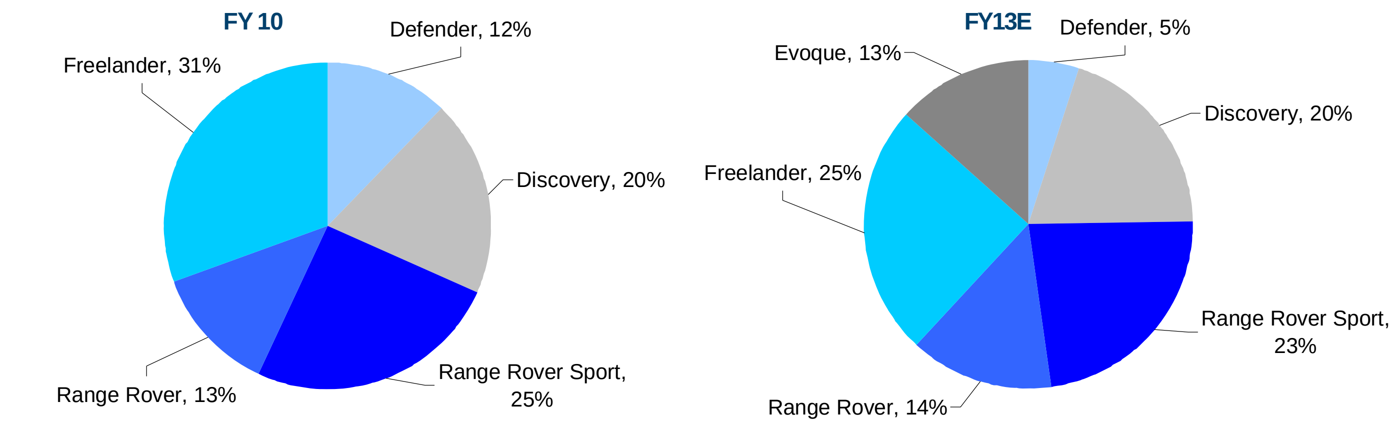
Source: SIAM , LKP Research

International operations – Land Rover to remain buoyant, Jaguar to improve; geographically developed nations to offset underperformance in Euro zone and UK

Evoque launch to be a game changer, Jaguar sales to fall this year

Land Rover (LR) is the bestselling brand of JLR. LR contributed 80% of total volumes of LR in FY 11, while 82% in Q1 FY12. LR has got five models in its portfolio – Freelander, Discovery, Range Rover, Range Rover Sport and Defender. Freelander is currently LR's best selling model, while Range Rover and Range Rover Sport are the most profitable. LR covers almost the whole range of luxury SUVs. Freelander and Defender lie in the Middle Luxury UV segment, Range Rover Sport and Discovery lie in the Middle Luxury Sport UV segment, while Range Rover Sport lies in the Higher Luxury Sport UV segment. Evoque will be launched in the Middle Luxury SUV segment where Defender and Freelander are placed. Evoque to be launched in September 2011 has got good initial response and has got 18,000 pre-launch bookings. Evoque clearly has the potential to be a big game changer for LR. It is the lightest LR model till date and will very well comply with the new emission norms at 180 gm/km. Evoque is the first model among the number of models to be launched by LR in the next five years. We expect LR to sell at least 20,000 Evoque this year. Jaguar volumes on the other hand have stagnated and will decline by 10% this year as concerns in the Euro zone increase. The upcoming launch of Jaguar XF 2.2 liter may help Jaguar to arrest the decline slightly in FY 12E, while improve the volume performance in FY 13E. While Evoque is expected to drive LR volumes, Jaguar volumes are expected to contract this year and thus the contribution to the total volumes will decline in FY 12E to 17% from 22% in FY 11.

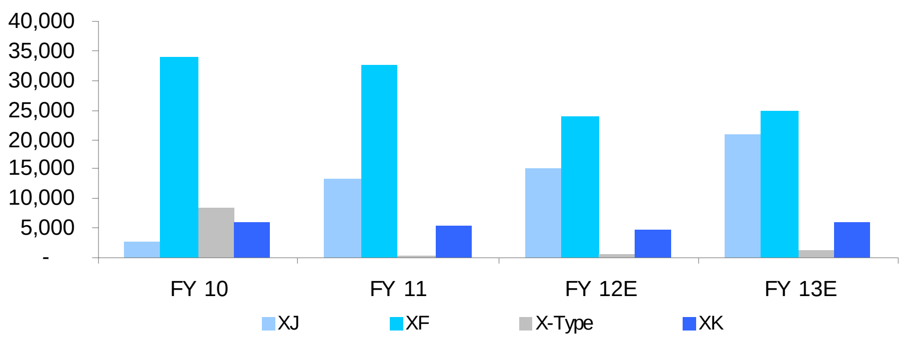
Modelwise contribution trend (Land Rover)



Source: Company , LKP Research

One of the reasons why Jaguar sales are falling is its absence in the lower luxury car segment, whereas its competitors BMW, Mercedes and Audi are present in all the segments of the luxury car segment. The lower luxury car segment contributes 40% of the luxury segment and is globally growing due to added thrust on the small vehicles considering emission norms. Jaguar is planning to enter this segment by launching Jaguar XE during FY 13.

Model wise growth trend in Jaguar



Source: Company , LKP Research

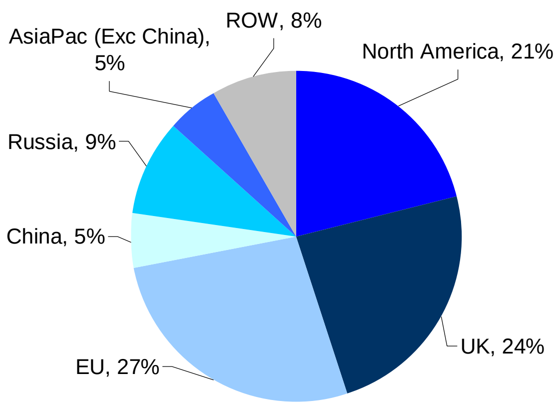
Car segment being too competitive and dynamic, new launches are utmost necessary as witnessed by the fall in Jaguar XF sales since launch of E Class, Audi A5 and A6. Despite having a younger product portfolio such as XJ and XF, Jaguar is facing stiff competition and losing ground. While, on the other hand SUV segment is less dynamic and hence we believe Evoque will score well in a relatively benign competitive environment. Also, LR has good brand equity in the SUV market although they have a fleet of old models. Following Evoque, LR will get fresh models in the summers of 2012 and 2013. LR will refurbish their entire fleet in the coming 5 years, while launching a new Defender (whose sales are falling) in FY 15 after 20 years. Hence, we believe that post younger fleet LR will have a strong traction in sales henceforth.

China to be the next growth haven

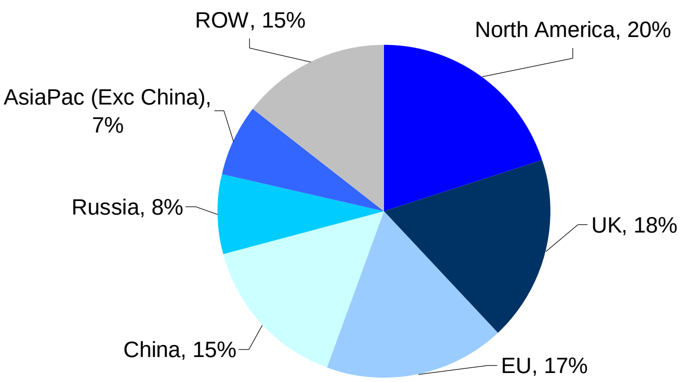
China contributed 11% to the total volumes of JLR in FY 11(16% in Q1 FY12) and has grown by 58% yoy in the same period (48% in Q1 FY12). Over the past few months, Chinese auto sector has started seeing some slowdown given the interest rate hikes and the congestion reduction measures taken by the government. The hike in interest rates may not have any significant impact on premium cars as the Chinese consumers buy premium cars through cash purchases. In order to reduce congestion, the Chinese government has restricted the number of registrations and license plates are auctioned. These measures are also expected to have a relatively lesser impact on premium cars given the higher price of the premium car, which implies that the incremental cost of license plate is not a heavy cost for them.

Geographical volume contribution trend in JLR

FY09



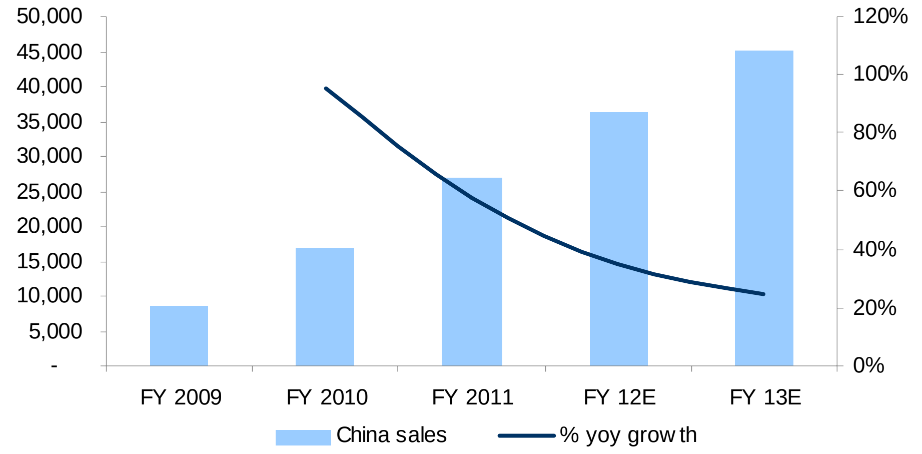
FY13E



Source: SIAM , LKP Research

China has been the fastest growing market for JLR. The contribution from China in FY 11 has grown from 9.7% to 11% in FY 11 yoy, while the revenue contribution has grown from 9.7% to 16.6% in the same period. This indicates improvement of product mix driven by higher sales of Range Rovers and XJs in China, as the premium cars in China are showing consistent strong demand. This resulted in the realizations of China to shoot up by 71% yoy from GBP35,000 to GBP60,000 due to improved product mix. Chinese realizations are at 50% premium to the average realizations in developed countries. This differential is higher for the upper end of premium vehicles and is benefitting JLR as it is present mainly in the upper end of premium cars.

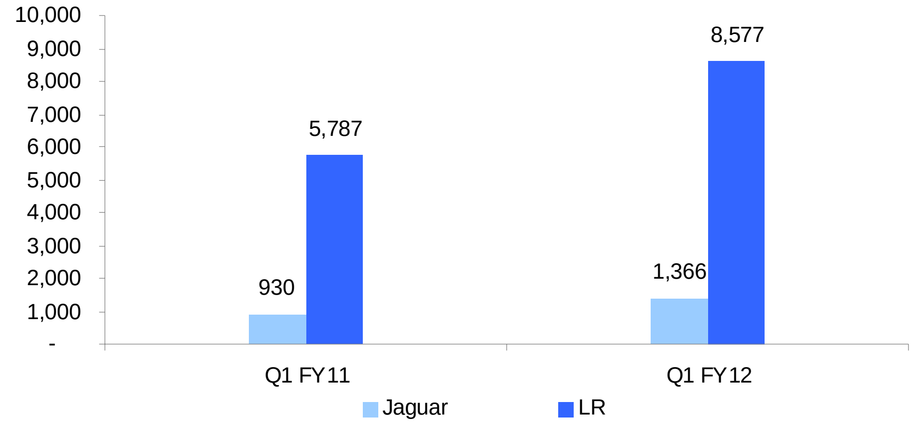
China sales trend and growth



Source: Company , LKP Research

In order to ramp up presence in China, JLR is in the process of increasing the number of dealers from 60 at the end of CY 10 (37 at the end of CY 09) to 100 by the end of CY 11, thus expanding their network deeply in China. JLR is also scouting for a new JV partner in China to set up a new assembly line. This would provide JLR with a direct access to the rapidly growing Chinese market. JLR also plans to launch models suited to the Chinese markets. The company plans to launch new LR products and introduce Jaguars with lower displacement engines as per demand from the Chinese markets. In the recently concluded Shanghai Autoshow, the company showcased The Jaguar XJ 3.0 liter, a model specially made for the Chinese market equipped with V6 engine and a six-speed automatic transmission. JLR has received an order from Chinese government to sell 40,000 units this year. We have estimated a 35% growth in China in FY 12 and 25% in FY 13.

China - Quarterly comparison

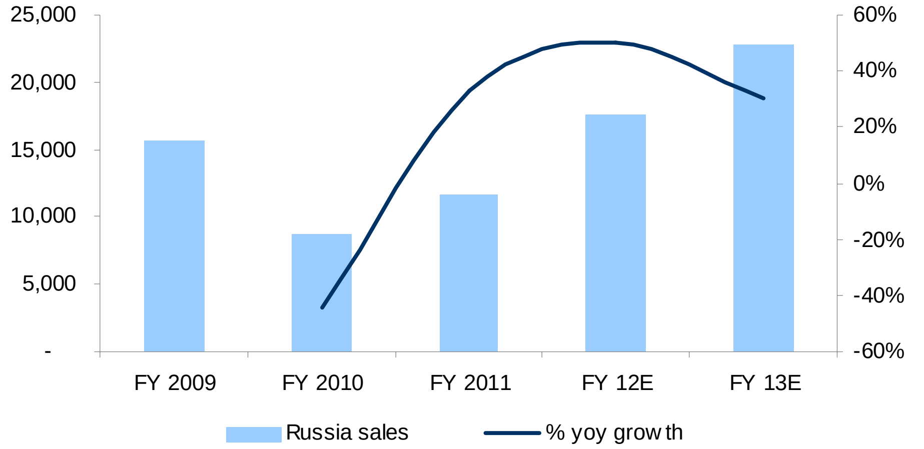


Source: Company , LKP Research

Russian markets have a strong growth potential

Russian markets are specialized with features such as low car penetration, growing economy, lower car interest rates and government incentives to promote auto growth. The Russian markets have grown by a robust 30% yoy in CY10. According to industry estimates, Russian markets are slated to grow at 20-25% in CY 11 to ~2.2-2.3mn. In the first half of CY 11, this market has already grown at 56% to 1.25mn units. In the short term the growth in these markets will see sharp growth on cash for clunkers scheme backed by the government, while in longer term, the lower car penetration of just 24% and rising demand for foreign cars will drive the growth.

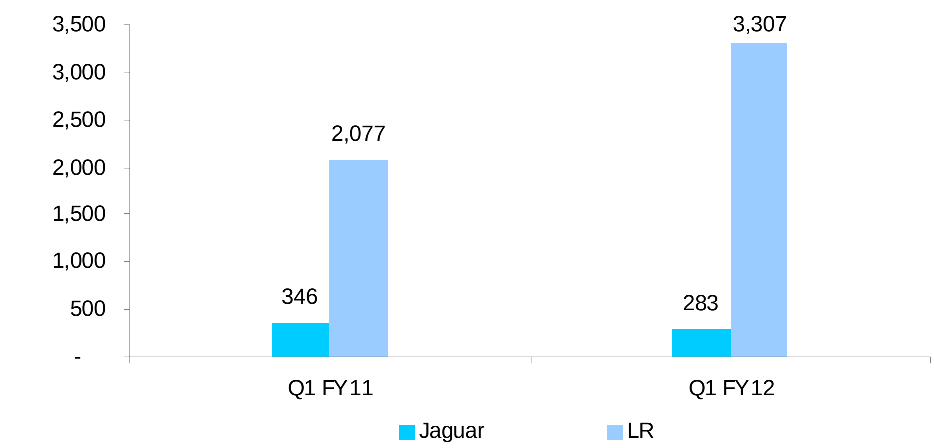
Russia sales trend and growth



Source: Company , LKP Research

JLR grew at 54% in Russia, out of which LR grew by 59%, while Jaguar declined by 18%. Russia now contributes ~6% of total JLR volumes. Going forward, we expect Russian markets for JLR to excel due to increasing consumer preference for foreign brands with Russia still being a major importer of vehicles. Also strong replacement demand will help the cause of JLR as 46% of the 31 mn vehicle population is 10 years older. Furthermore, local car makers are lagging in terms of quality and operational excellence as they are heavily leveraged. Thus, we believe that an old car fleet and low car density as compared to other developing economies will augur well for JLR's growth In Russia.

Russia - Quarterly comparison

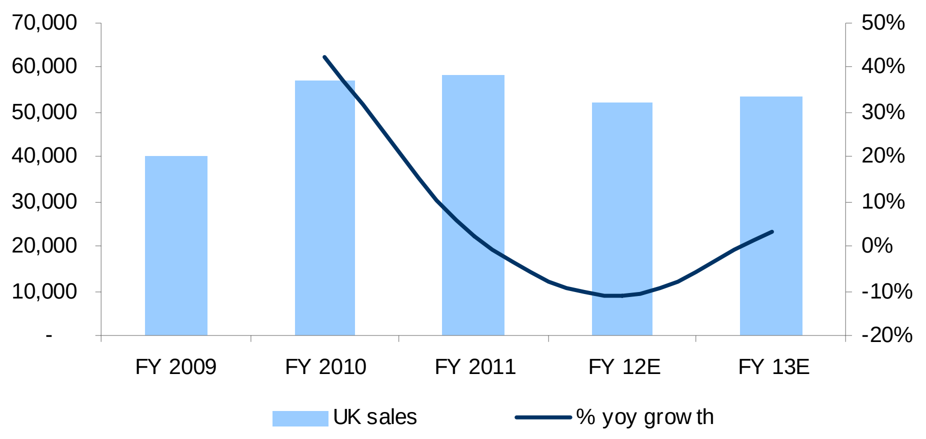


Source: Company , LKP Research

Concerns in US and Eurozone to aggravate on worsening economic conditions, thus hitting JLR sales there

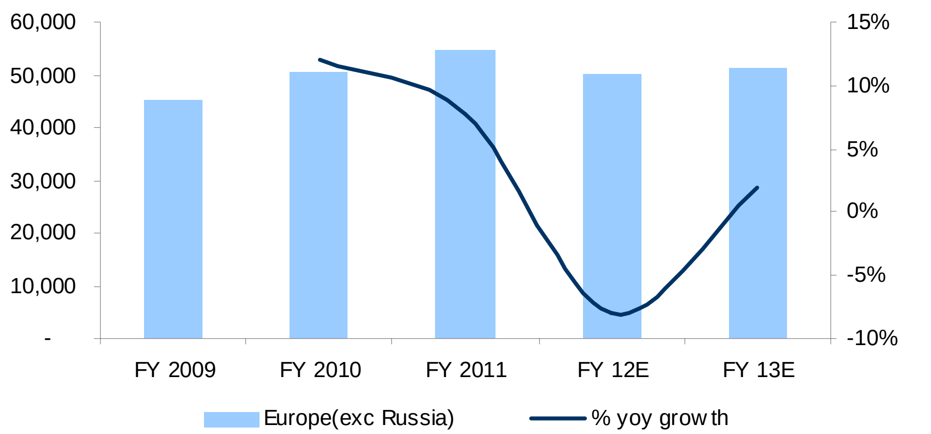
JLR earned 60% of its volumes from US, Europe and UK markets in Q1. In the US, the company has posted growth in both Jaguar (11.3%) and LR (10%), while in Europe exc. Russia, Jaguar sales have fallen by 33%, while LR sales have grown by just 1%. UK registered a 19.4% decline in overall sales, out of which LR declined by 15%, while Jaguar declined by 30% in Q1 FY12. These declines have come despite the UK and European premium car and SUV sales industries posting growth. The reason behind the decline in JLR sales in these two geographies can be attributed to the transition phase of JLR from old models to yet to be launched models such as Evoque and Jaguar XF. Absence of smaller engines (<3 liter) in the portfolio has also resulted in this fall. Also cessation of a few models by JLR has resulted in this decline. Going forward, with economic concerns looming large over Euro zone, we believe JLR sales to decline for the full year by 11% in UK and 8% in Europe, albeit the decline will be arrested up to a great extent by the new model launches.

UK sales trend and growth



Source: Company , LKP Research

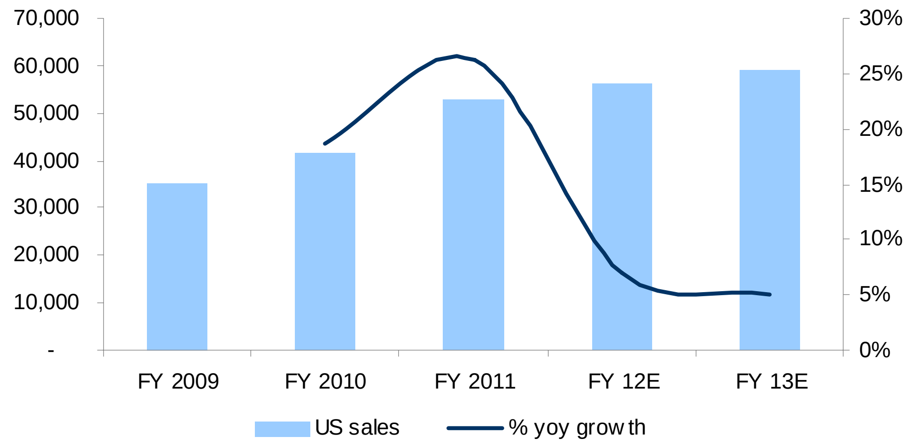
Europe (exc Russia) sales trend and growth



Source: Company , LKP Research

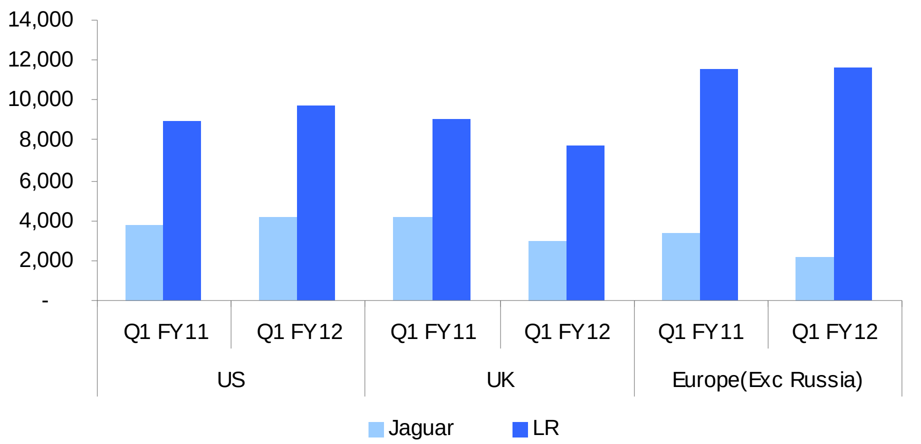
In the US, the premium car market has shown a decline of 8% in Q1 FY12, while SUV sales have grown by 6%, however, JLR has posted a growth of 10% driven by 11% Jaguar sales and 10% LR sales. Going forward, as US is posting weak economic data; we believe consumer sentiments to turn slightly negative, thus resulting in growth of just 7% in FY 12.

US sales trend and growth



Source: Company , LKP Research

US,UK,Europe(exc. Russia) Quarterly comparison



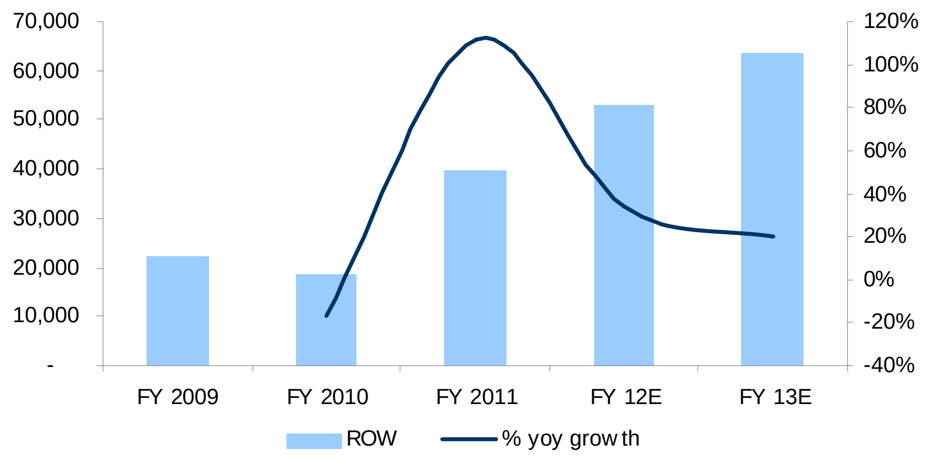
Source: Company , LKP Research

ROW countries like Brazil, India to augur well for top line growth

Among the Rest of World (ROW) markets, Brazil, South Africa, India are some of the markets where JLR is showing strong signs of growth. Brazil has become the world's fourth largest automobile market behind China, US and Japan with sales of 3.5mn units in CY 2010, up 12% yoy. Volkswagen, Fiat, GM and Ford are the top four players in Brazil. Brazilian markets are growing and have great potential for the auto industry to grow as the car density there is just 14%. Despite hike in interest rates the Brazilian car markets have grown at 10% in H1CY11, thus implying that the rate hike had no major impact on car volumes. When JLR was under Ford, Ford had shut down its JLR plant in Brazil. Brazil being one of the fastest growing car markets seems to be very important for JLR, due to which we believe sooner or later the company may open up the closed plant and improve its presence in Brazil.

India, though a small market for premium cars and in turn for JLR, is rapidly growing and has a great potential to become big considering improving incomes and low car density. JLR sells very small amount of models in India, but has recently set up a manufacturing plant at Pune and has started assembling and addressing the Indian car market. It will provide incremental growth for the company in near term and will offer great opportunity in the longer term. JLR are also considering India as a export hub for manufacturing its vehicles, which will give a significant pricing advantage to JLR over its rivals.

ROW sales trend and growth

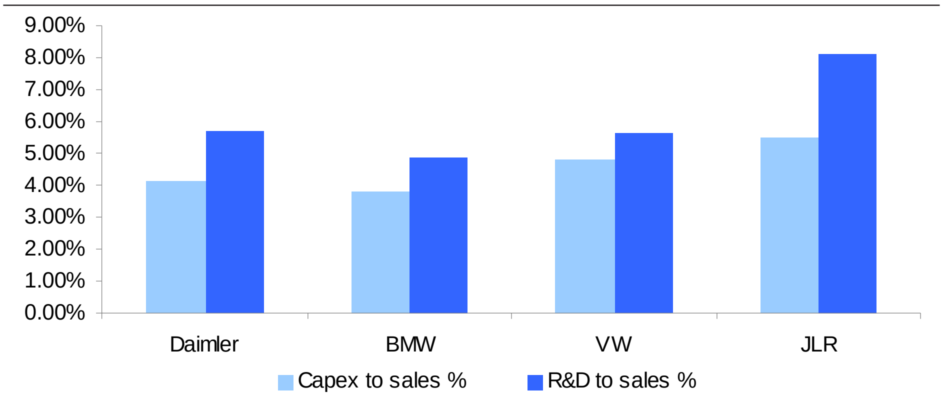


Source: Company , LKP Research

Higher R&D expenses to impact capex and margins

In order to comply with the emission norms (mandatory in Europe by 2012) wherein the company will not only have to reduce CO2 emissions but will also have to maintain same level of power. JLR has to spend a huge amount of money. Furthermore, a large capex will go for tooling as the company is in the process of launching too many vehicles in the coming five years. JLR sources engines from Ford which is putting constraints on production of JLR due to unexpected spurt in demand for LR and is reducing the operational efficiencies and increasing the dependence on Ford. While JLR has an agreement to source engines from Ford till 2017, still in order to cater to the rising demand for LR and support the new launches, we believe JLR will have to set up their new engine plant. JLR believes that constructing future vehicles in aluminium bodies will save a lot of cost along with reducing CO2 emissions and overall weight of the car which would result in usage of less expensive brakes and a less powerful engine. This may provide some respite to the margins of the company in an environment where capex and investments are rising. The company has raised their capex guidance to GBP7.5bn over the next 5 years for R&D and research purposes. While the rivals spend just 5-6% of net sales on R&D, JLR is spending >8% on R&D, thus impacting margins to the extent of the amount not capitalized (~50%).

Peer comparison for capex/sales(%) and R&D expenses to sales (%)



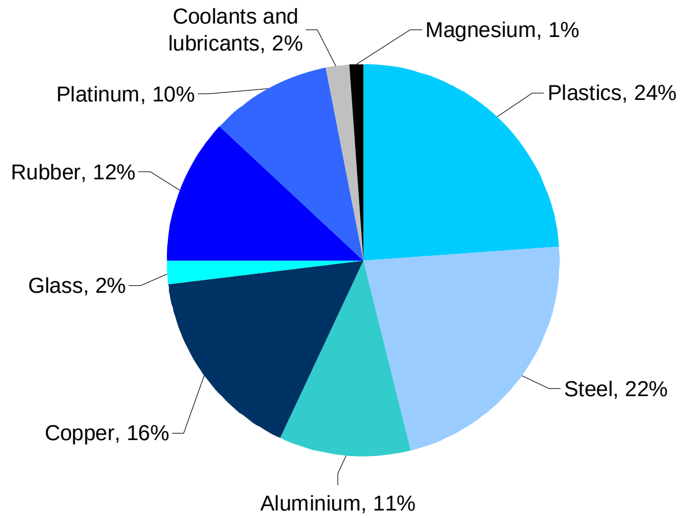
Source: Industry , LKP Research

Profitability to get impacted by Evoque launch, discounting in US and increase in raw material costs

The expected demand for Evoque will tilt the product mix in favor of low cost products, thus impacting margin performance of JLR. Furthermore, reduction in volumes of Jaguar especially of the XF model has resulted in the company doling out discounts on Jaguar. In the US markets, Jaguar is giving discount of $8000 per vehicle which has drastically gone up from $2000 per vehicle. It was also related to inventory cleanup of Jaguar models. However, with the upcoming launch of Jaguar XF 2.2 liter, we believe this discount to go down, however the total discount on a yearly basis will still remain.

JLR has annual raw material contracts similar to what other global OEMs have. Hence, despite raw material softening, JLR will not be able to get benefit of this till the end of FY 12. However, the value of commodities used in a premium car (steel 22% of total RM cost) is unlike that of a small hatchback car (steel >60% of total RM cost). Therefore, the impact of higher steel prices when the company has entered in to the contracts will slightly impact margin performance of JLR. Also, adverse currency impact due to appreciating GBP against USD and depreciating against Euro may impact margins negatively.

RM composition of luxury car



Source: Industry , LKP Research

Tata Motors is identifying synergies between JLR and Tata for joint product development and sourcing opportunities which would help the company to control costs. The parent is looking out for joint manufacturing facilities in cost efficient countries like India and China. Common vendor rationalization is also considered. As stated earlier setting up engine plant independent of Ford would help them to obtain operational efficiencies, while multiple use of common engines would improve economies of scale. We have forecasted EBITDA margins for JLR at 12.8%/13.01% in FY 12E/FY13E v/s 14.9% in FY11.

JLR better placed than 2008 to face the possible downturn

JLR debt has reduced to just GBP295mn, which was significantly high during the downturn in 2008 thus showing improvement in balance sheet. Secondly, the inventory days have reduced from 130 days to 70 days. The product life cycle has turned favorable and the break even volumes are now at 60% as compared to 80-85% of its production in 2008. Bounce back in margins and strengthening geographical presence has done it less susceptible to any possible economic downturn.

Assumptions

Standalone business

In line with the slowdown in the CV business, we expect MHCV business to grow at 7% in FY 12 v/s 18% in FY 11 and to improve by 9% in FY 13 as new models in the Prima segment will aid volume growth and interest rates are expected to peak out within one more round of hike thus living no room for any further hike. This will help growth of MHCVs in FY 13. LCV volumes are expected to grow by 17% in FY 12E and 13% in FY 13 as new capacities are added and the segment being fairly insulated from the macro headwinds.

On the PV side, we expect the dismal performance of the company to continue as competition intensifies and Tata Motors struggles to capture market share with its weak product portfolio. Indica, Indigo and Manza are facing significant market share erosion, which will continue leading to a negative 10% growth rate this fiscal. Disappointing performance from Nano will aid this fall in FY 12 as company is implementing production cuts and shutdowns to correct its inventory and adjust for the falling demand.

UV sales are expected to grow by a moderate 6% in FY 12, as this segment is unable to break the shackles created by M&M, Toyota and GM even with new launch of Aria. We expect this segment to grow at 7% in FY13.

Total sales of standalone business are expected to grow at 5% in FY12 and 11% in FY13.

Stand alone sales assumptions	**FY 09**	**FY 10**	**FY 11**	**FY 12E**	**FY 13E**
MHCV	122,984	167,829	209,522	224,189	244,366
% yoy		*36.5%*	*24.8%*	*7.0%*	*9.0%*
LCV	168,466	233,697	287,463	336,332	380,055
% yoy		*38.7%*	*23.0%*	*17.0%*	*13.0%*
Total CV	291,450	401,526	496,985	560,520	624,420
% yoy		*37.8%*	*23.8%*	*12.8%*	*11.4%*
Cars	166,716	207,036	263,274	236,947	260,641
% yoy		*24.2%*	*27.2%*	*-10.0%*	*10.0%*
UV	39,981	34,124	43,063	45,431	48,612
% yoy		*-14.6%*	*26.2%*	*5.5%*	*7.0%*
Total PV	206,697	241,160	306,337	282,378	309,253
% yoy		*16.7%*	*27.0%*	*-7.8%*	*9.5%*
Total stand alone sales	498,147	642,686	803,322	842,898	933,673
% yoy		*29.0%*	*25.0%*	*4.9%*	*10.8%*

As far as profitability is concerned, we expect standalone margins to move down to 8.6% in FY 12, 150 bps down yoy due to underperformance on the PV side and possible doling out of discounts to gain market share in that segment. Price hikes taken on MHCV side and ramp up of Tata Ace production may provide some support to the margins. FY 13 margins are expected to improve to 9% with RM costs easing.

JLR

We expect JLR volumes to grow at a slower pace in FY 12 mainly due to concerns in the Euro zone and the US (60% of volume collectively). We expect US/UK and Europe to grow at 7%/-11%/and -8% in FY 12 and 5%/3% and 2% in FY 13. The developing economies such as China, Brazil, India, Russia, South Africa etc are expected to support volumes going forward with the new launches of Evoque and Jaguar XF 2.2 liter in near future. Evoque having already received 18,000 order bookings gives us comfort that JLR will achieve our target of 9% volume growth in FY12.

Despite JLR sales falling in Europe and UK, the market for premium cars has grown there implying that new launches of JLR may assist to arrest this decline. Hence we estimate growth declines in these two markets to be less steep than those observed in Q1 FY12 (- 7.1% and -19.4% respectively).

Region	FY 2009	FY 2010	FY 2011	FY 12E	FY 13E
North America	35133	41700	52618	56301	59116
% of total	21.0%	21.5%	21.6%	21.2%	20.0%
% yoy		18.7%	26.2%	7.0%	5.0%
UK	40152	57100	58464	52033	53594
% of total	24.0%	29.5%	24.0%	19.6%	18.1%
% yoy		42.2%	2.4%	-11.0%	3.0%
EU	45171	50600	54566	50201	51205
% of total	27.0%	26.1%	22.4%	18.9%	17.3%
% yoy		12.0%	7.8%	-8.0%	2.0%
China	8700	17000	26796	36175	45218
% of total	5.2%	8.8%	11.0%	13.6%	15.3%
% yoy		95.4%	57.6%	35.0%	25.0%
Russia	15726	8800	11693	17540	22801
% of total	9.4%	4.5%	4.8%	6.6%	7.7%
% yoy		-44.0%	32.9%	50.0%	30.0%
AsiaPac (Exc China)	8365	8000	13021	17188	20625
% of total	5.0%	4.1%	5.3%	6.5%	7.0%
% yoy		-4.4%	62.8%	32.0%	20.0%
ROW	14053	10683	26463	35725	42870
% of total	8.4%	5.5%	10.9%	13.5%	14.5%
% yoy		-24.0%	147.7%	35.0%	20.0%
Total	167300	193883	243621	265162	295430
% yoy		15.9%	25.7%	8.8%	11.4%

On the margin front, JLR is expected to register a fall in margins in FY 12 with the launch of low cost Evoque, annual RM contracts leading to JLR not getting benefit of softening commodity costs, discounts in the US, adverse currency movement and heavy R&D spend. However, cost control measures taken by the company will restrict the fall in margins. We expect margins in FY 12E to fall to 12.8%, which will improve to 13% in FY 13E.

Outlook and Valuation

Tata Motors stock has fallen ~50% from its 52 week high in December 2010. On a consolidated basis, the stock is trading at a PE of 5.3x on FY 13E EPS of Rs 27 post split. We value this company on SOTP basis considering the differential in businesses and geographies of operations.

Standalone business is facing slowdown considering slowing of economy resulting in muted CV demand. However, strong presence in the LCV segment which is virtually insulated from the macro issues will be the savior. On the Passenger side, we do not have great hopes as the company rapidly continues to lose market share on competition, macro headwinds and competition from new players. On an EV/EBITDA basis, we value the domestic business at 5.5x which is at the lower range of its EV/EBITDA band and hence derive a value of Rs 86 from the domestic business.

On JLR front, slowdown in Europe and US will be offset by growth in developing countries like China, Russia, Brazil, India, South Africa etc. The company's ambitious investment plans in China are expected to deliver with new launches and rising demand over there. New launches such as Evoque and Jaguar XF will augur well for the volumes. Profitability will get impacted with adverse currency movements, launch of low cost products, structure of RM contracts and rising discounts. We believe FY 12 will see short term pain for the company and will face lesser headwinds in FY 13 considering further expansion of business and macro concerns getting mitigated.

Global OEMs are trading at 3.5-4x EV/EBITDA on FY 13E basis. We value JLR at 3x, which is at a discount to the likes of BMW and Daimler. We arrive at a JLR value of ₹110. We value the subsidiaries at ₹19, while net debt is valued at ₹43 per share.

On SOTP basis, we value Tata Motors at ₹172, with an upside of ₹21% from current levels. Hence, though there are concerns on both domestic and international businesses, we believe the stock on valuation and business prospects in FY 13 looks attractive.

Valuation

Standalone	
FY '13E EBITDA (₹mn)	52446
EV/EBITDA multiple (x)	5.5
EV (₹ mn)	288452
EV/share (₹)	86
JLR	
FY '13E EBITDA (₹ mn)	122728
EV/EBITDA multiple (x)	3
EV (₹ mn)	368184
EV/share (₹)	110
FY '13E Consolidated Net debt (Rs mn)	144731
Net debt/share (₹)	43
Subsidiary value (₹)	19
Target price (₹)	172
CMP (₹)	142
Upside (%)	21%

Scenario Analysis -

	Bear case		Base case		Bull case	
	FY 12E	FY 13E	FY 12E	FY 13E	FY 12E	FY 13E
Tata Motors Standalone						
MHCV volumes	219,998	230,998	224,189	244,366	230,474	253,522
EBITDA margins	7.4	5.9	8.6	9.0	9.6	10.4
EBITDA	37785	33504	44306	52446	49809	60816
EV/EBITDA multiple		4.5		5.5		6.5
EV		150768		288452		395304
JLR(Rs mn)						
Volumes	252757	269354	265162	295430	279012	316916
EBITDA margins	11.59%	12.22%	12.80%	13.01%	14.48%	13.85%
EBITDA	91677	105086	106202	122728	126474	140108
EV/EBITDA		2		3		4
EV		210172		368184		560432
Net debt	185000	170000	182721	144731	145000	115000
Subsidiaries value		19		19		19
Total fair value		76		172		282
Up/(Down) side (%)		-47%		21%		98%

Our bear case scenario indicates a 47% drop in the value of the company, while bull case scenario gives 98% upside, while base case shows an upside of 21%, which seems balanced.

Risks and concerns

- Aggravation of global concerns surrounding Euro zone and the US can have a significant negative impact on JLR business
- Failure of Evoque and slowdown in China may impact volumes negatively
- Consistently low industrial development in domestic markets may take its toll on the CV business
- Adverse currency and RM cost movements may impact margins negatively

Financial Summary (Consolidated)

Income statement

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
Total Revenues	**925,193**	**1,231,333**	**1,410,854**	**1,598,391**
Raw Material Cost	539,228	686,175	945,300	1,059,495
Employee Cost	87,518	93,427	97,293	110,870
Other Exp	172,845	227,436	260,748	294,197
Expenses trnsfd	(45,925)	(57,412)	(51,469)	(52,000)
EBITDA	**91,124**	**177,799**	**158,983**	**185,829**
EBITDA Margin(%)	*9.8*	*14.4*	*11.3*	*11.6*
Other Income	17,931	896	4,500	4,000
Depreciation	43,853	56,179	56,251	60,654
Exceptional items	2,596	-	-	-
Interest	22397	20454	20078	19307
PBT	**40,208**	**102,062**	**87,154**	**109,868**
Tax	10,058	12,164	15,396	19,063
PAT	**30,151**	**92,208**	**71,758**	**90,806**
Adj PAT	**28,097**	**90,426**	**71,118**	**90,166**
Adj PAT Margins (%)	*3.0%*	*7.3%*	*5.0%*	*5.6%*

Key Ratios

YE Mar (mn)	FY10	FY11	FY12E	FY13E
Per Share Data (₹)				
Adj. EPS	8.4	27.1	21.3	27.0
CEPS	21.6	43.9	38.2	45.2
BVPS	24.6	57.4	77.5	104.9
DPS	3.0	4.4	2.8	4.5
Growth Ratios(%)				
Total revenues	30.5	33.1	14.6	13.3
EBITDA	314.9	95.1	-10.6	16.9
PAT	N/A	221.8	-21.4	26.8
EPS Growth	N/A	221.8	-21.4	26.8
Valuation Ratios (X)				
PE	16.6	5.2	6.6	5.2
P/CEPS	6.5	3.2	3.7	3.1
P/BV	5.7	2.4	1.8	1.3
EV/Sales	0.8	0.6	0.5	0.4
EV/EBITDA	8.0	3.9	4.1	3.3
Operating Ratios (Days)				
Inventory days	45	42	43	45
Recievable Days	28	20	18	15
Payables day	231	197	150	140
Net Debt/Equity (x)	3.21	1.14	0.71	0.41
Profitability Ratios (%)				
ROCE	42	71	47	47
ROE	34	47	27	26
Dividend payout	28	14	12	15
Dividend yield	2.1	3.2	2.0	3.2

Source: Company , LKP Research

Balance sheet

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS				
Equity Share Capital	5,706	6,370	6,677	6,677
Reserves & Surplus	76,358	185,333	252,096	343,390
Total Networth	82,064	191,715	258,773	350,067
Total debt	351,084	327,914	322,091	294,941
Net Def. Tax Liability	17,708	20,961	21,961	23,961
Minority interest	2,135	2,466	2,466	2,466
Total Liabilities	**452,991**	**543,056**	**605,291**	**671,435**
APPLICATION OF FUNDS				
Net block	295,904	317,643	331,391	360,737
Capital WIP	89,159	117,289	97,289	77,289
Goodwill	34,229	35,848	35,848	35,848
Investments	22,191	25,443	35,443	45,443
Current Assets				
Cash and Bank	87,433	109,479	139,370	150,210
Inventories	113,120	140,705	166,210	197,062
Sundry Debtors	71,912	68,774	69,576	65,687
Loan, Advances	151,993	191,391	225,756	255,762
Current Liab & Prov				
Current liabilities	340,773	371,147	388,479	406,382
Provisions	76,435	98,692	113,436	116,544
Net Current Assets	**7,250**	**40,511**	**98,997**	**145,794**
Total Assets	**452,991**	**543,056**	**605,291**	**671,435**

Cash Flow

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
PAT	30,693	92,736	71,118	90,166
Depreciation	38,826	46,510	56,251	60,654
Interest	23,055	19,781	20,078	19,307
Chng in working capital	31,220	(16,943)	(28,595)	(35,958)
Tax paid	10,058	12,164	15,396	19,063
Other operating activities	(38,898)	(41,848)	(23,384)	(23,780)
CF from operations (a)	**94,953**	**112,401**	**110,864**	**129,452**
Capital expenditure	(84,532)	(81,128)	(50,000)	(70,000)
Chng in investments	(4,441)	(10,136)	10,000	10,000
Other investing activities	13,643	20,607	0	0
CF from investing (b)	**(75,331)**	**(70,657)**	**(40,000)**	**(60,000)**
Free cash flow (a+b)	19,623	41,745	70,864	69,452
Inc/(dec) in borrowings	23,438	(12,051)	(5,823)	(27,150)
Dividend paid (incl. tax)	(3,496)	(10,195)	(8,710)	(13,701)
Other financing activities	8,475	8,234	(17,595)	(17,761)
CF from financing (c)	**28,417**	**(14,013)**	**(32,128)**	**(58,612)**
Net chng in cash (a+b+c)	48,040	27,732	38,736	10,840
Closing cash & cash equiv.	**70,282**	**100,634**	**139,370**	**150,210**

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September 15, 2011

Buy

Tata Motors

Industry: Auto and Auto Components | Industry View: Neutral

"Near term concerns priced in"

MHCV demand to remain muted in FY 12, LCV demand to provide support

In view of the macro headwinds impacting industrial output and slowing of the economy, we believe MHCV demand will witness a mid single digit growth in FY 12. However, we believe FY 13 will witness reversal in the current trend in MHCV with strong infra plans in the pipeline. Also consumption centric LCV demand will remain buoyant as this segment is bucking the trend in CV industry. Tata Motors being the market leader in both the businesses will be the single largest beneficiary from the trend reversal in MHCV demand and continued strength in LCV industry. We forecast MHCV/LCV volumes to grow at 7%/ 9% and 17%/13% in FY12E/FY13E respectively.

JLR demand to improve on a refreshed portfolio

Land Rover sales are expected to continue the dream run on the back of the recent launch of Evoque,which has already amassed 20,000 booking orders. Jaguar demand was impacted due to lack of smaller engine offerings as the market moved towards<3l engines. With the July launch of Jaguar XF 2.2l we believe the sharp fall observed in Jaguar in the past few months would get mitigated. We expect JLR to post 9%/11.4% growth in FY12E/FY13E at 0.265/0.295 mn units.

China, Russia and other developing economies to offset the Euro zone underperformance

Geographically, US, UK and Euro zone will witness pressures considering the economic instability, while China (36,000 units in FY 12E), Russia and other developing countries like Brazil, India, South Africa etc will drive overall growth. We expect UK and Euro zone to post negative growth in FY 12E, while posting lower single digit growth in FY 13E. China (35%/25% in FY 12E/13E), Russia (50%/30% in FY 12E/13E) and ROW (35%/20% in FY12E/13E) countries will provide the required impetus to volumes.

Margins to fall on both macro and micro issues in coming quarters, but would improve in FY 13E

Higher ASPs in JLR business in China will mildly improve profitability, although margins will witness pressure due to adverse currency movement, annual RM contracts taken at higher prices, incentives provided mainly in the US and higher R&D spend. In the domestic passenger car business the company is rapidly losing market share and pricing power due to which margins will witness pressure. In FY 13E, as macro pressures ease with interest rates stabilizing, and the company starts getting benefit of the easing RM costs and new launches, we expect margins to improve. We factor in 11.3%/ 11.6% EBITDA margins in FY 12E/13E.

Valuation

Tata Motors, we believe at current levels factors near term concerns. We have valued the company on SOTP basis - Standalone business at 5.5x times FY 13E EV/EBITDA at ₹86, JLR at 3x times FY 13E EV/EBITDA at ₹110 and subsidiaries at ₹19, thus arriving at a target of ₹172, an upside of 21% and rate the stock a BUY.

Stock Data

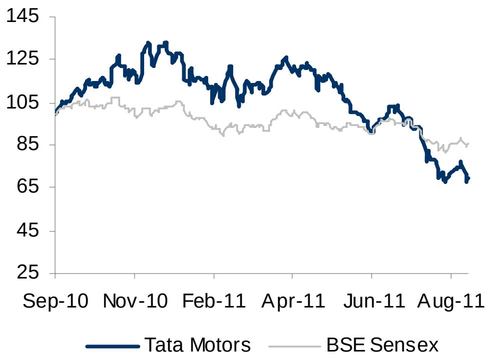
Current Market Price (₹)	142
Target Price (₹)	172
Potential upside (%)	21
Reuters	TAMO.BO
Bloomberg	TTMT IN

Key Data

Market Cap (₹bn)	390
52-Week Range (₹)	276 / 138
Avg. Daily Trading Value (₹mn)	2,649
Promoters (%)	35
FII Holding (%)	23
DII Holding (%)	14
Public & Others Holding (%)	28

Y/E March	FY10	FY11	FY12E	FY 13E
Revenues(₹mn)	925,193	1,231,333	1,410,854	1,598,391
EBITDA (%)	9.85	14.44	11.27	11.63
PAT (%)	3.0	7.3	5.0	5.6
EPS (₹)	8.42	27.09	21.30	27.01
EPS growth (%)	N/A	221.8	-21.4	26.8
P/E (x)	16.9	5.2	6.7	5.3
P/B(x)	5.8	2.5	1.8	1.4
EV/EBITDA (x)	8.1	3.9	4.1	3.3
ROCE(%)	42	71	47	47
ROE(%)	34	47	27	26
Dividend yield (%)	2.1	3.1	2.0	3.2

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	(11)	(28)	(30)
BSE Relative	(10)	(19)	(16)

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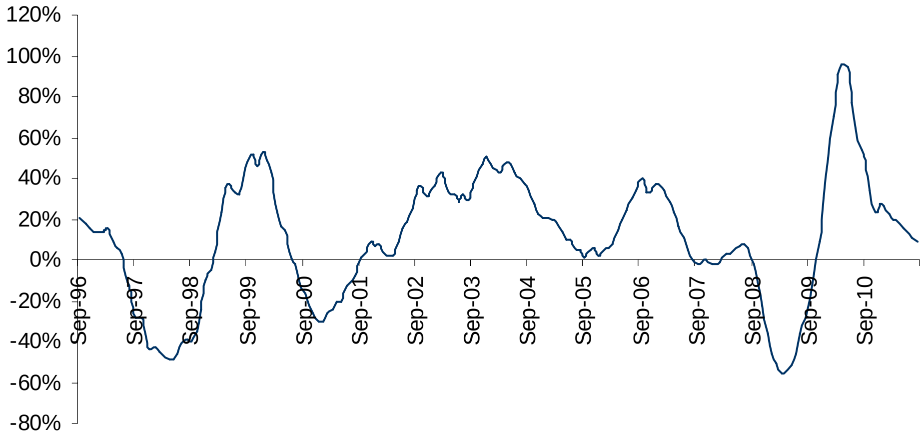
Domestic business – LCVs sail, PVs fail

Domestic CV business faces macro challenges, though the company is maintaining its hegemony

The significant hike in fuel prices coupled with 10 consecutive interest rate hikes in 2 years has led to a slowdown in the CV industry. No significant hike in freight rates along with scarcity of truck drivers has resulted into reduction of profitability of fleet operators. Slowdown in capital outlay and infrastructure expenditure of the country has resulted in reduction in demand for MHCVs. Tata Motors, the biggest commercial vehicle player in India has continued to be the dominant player in this space since last 5 years and has maintained its market share in both MHCV and LCV businesses above 60 % despite the slowdown in the industry and competition building up. The growth rate has definitely come off from the 25%+ observed in FY 11, but it is still in the territory of 7%.

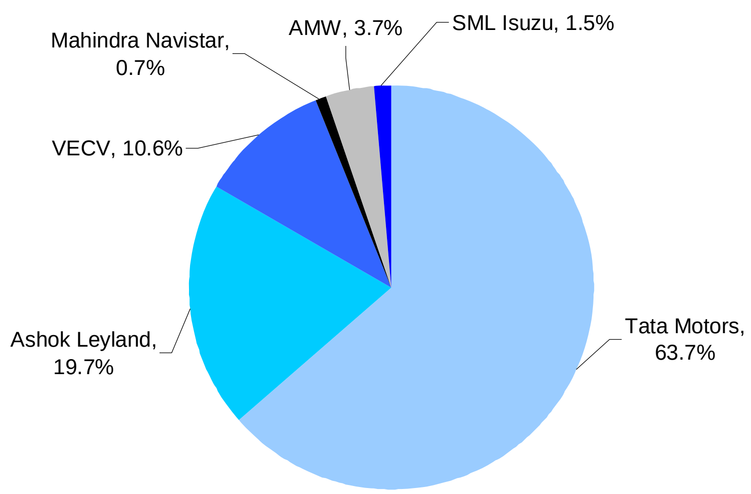
Average 6 monthly growth rate of MHCV industry (% yoy)



Source: Company , LKP Research

As far as competition is concerned, new players such as VE Commercial Vehicles, the joint venture between Volvo and Eicher Motor's CV business are gaining market shares. However, this gain is not at the cost of Tata Motors, but is eroding the market share of Ashok Leyland. On the goods carrier side, Tata Motors has increased its market share from 62.3% to 63.68% in the period between April-August 2011 on a yoy basis, while Asia Motor Works has increased it from 2.31% to 3.73% and VECV has increased from 9.61% to 10.59% during the same period. Ashok Leyland has lost a significant market share from 24.27% to 19.70% in that period. On the inventory management side, the company has inventory days of 2.5weeks.

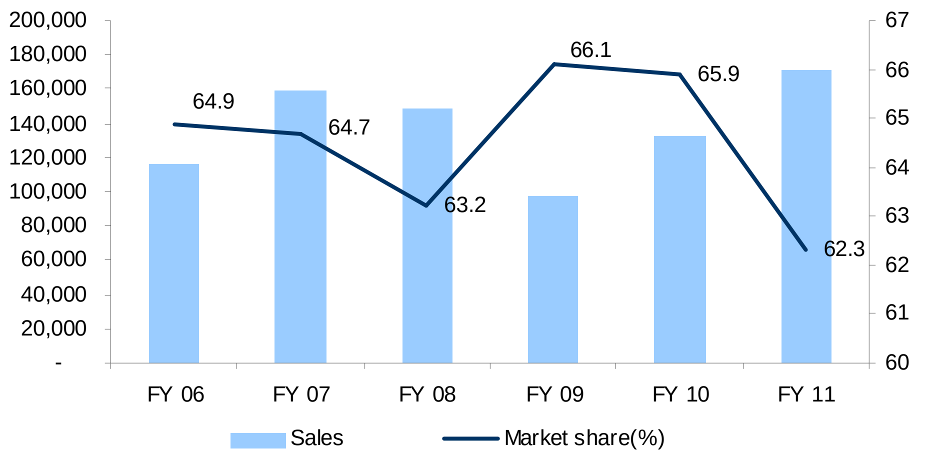
MHCV market share (April -August 2011)



Source: Company , LKP Research

Going forward, upcoming launches from M&M, VECV and Ashok Leyland will lead to stiffening of competition in the MHCV space leading to market share pressure on Tata Motors, however, the proliferation of the recent Prima launches and other new launches/ variants will help Tata Motors to arrest the decline in market share and to maintain its hegemony in the MHCV industry.

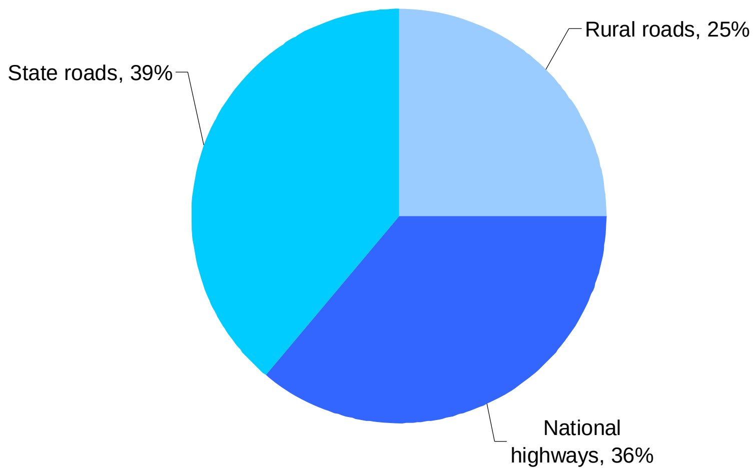
MHCV sales and market share movement



Source: Company , LKP Research

Although volumes in FY 12 will remain muted, we believe it will normalise in FY 13 given the ambitious rural and urban development plans chalked out. It is estimated that ₹5,000 bn would be invested in India in the next five years for road development. This investment boom will augur well for the CV demand in FY 13 as interest rates stabilize and the current slowdown reverses.

Composition of infrastructure outlay of Rs 5000 bn

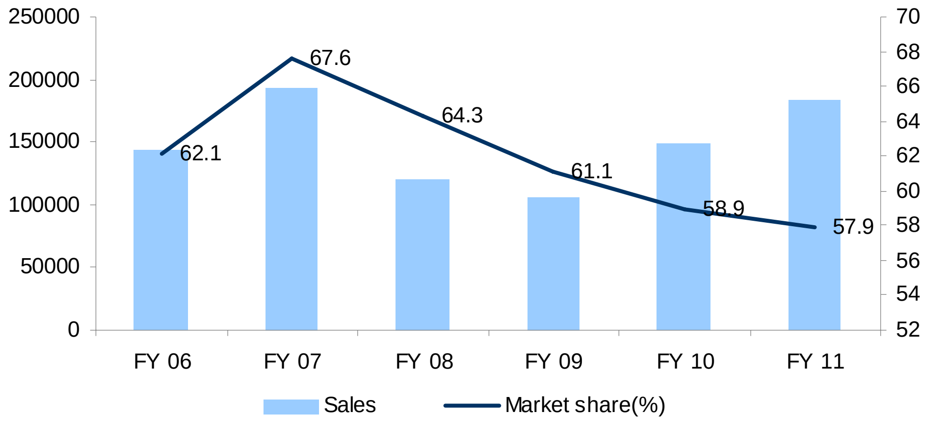


Source: Industry , LKP Research

LCV business to remain strong with capacity expansion and persistent demand for ACE despite competition

The LCV segment has been bucking the trend in the CV industry ever since 2008 where it was the first sector to make a comeback after the downfall. Unlike MHCVs, LCV segment is neither directly related with the economic condition of the country, nor with the infrastructure development. It is directly proportional to the growing consumption story of India and last mile transportation. The maximum utility of LCV is in rural India where affordability of MHCV is an issue and the cargo to be moved is of lesser quantity and non-bulky nature such as crop, milk, consumer durables etc. Therefore, despite a slowdown in the MHCV industry, we believe LCV industry will buck the trend in the CV industry.

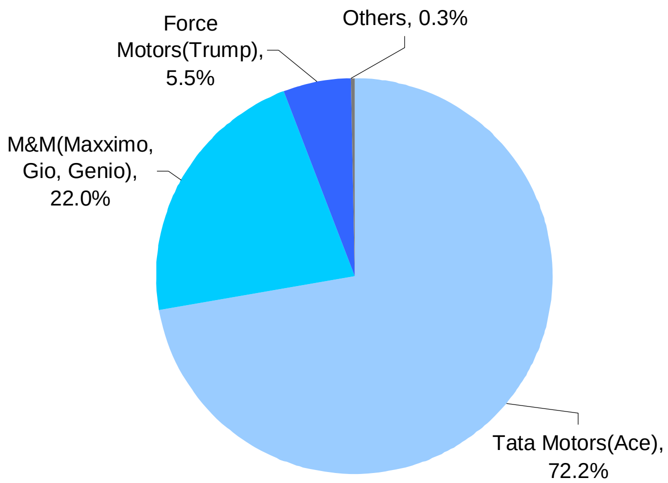
LCV sales and market share movement



Source: Company , LKP Research

Tata Motors with its sub 1 tonner flagship product Ace has been commanding leadership position in the LCV segment (SCV sub-segment to be specific). Within LCV, the SCV segment i.e. the sub 2 tonne segment is contributing 62% of the total LCV segment and is the main growth driver. However, off late, Tata Ace has been feeling pressure on its market share due to the success of Mahindra Maxximo. In the period between April-July 2011, Tata Motors' market share in the SCV segment has slightly reduced from 74% to 72.2%, while M&M's market share has moved up from 19.4% to 22%. The company produces Ace and its variants like Ace Zip from the Pantnagar plant where the capacity is of 1,50,000 p.a. (functioning at 100% utilization rate) and can be increased by another 50,000 p.a. through debottlenecking. Tata Motors is coming up with another plant for Tata Ace at Dharwad, Karnataka with a capacity of another 1,50,000 p.a. to come on stream by the end of FY 12E. These initiatives will definitely augur well for Tata Motors to improve their market share in the coming years and combat the growing competition.The success of LCV business can be verified from the fact that Tata Motors' LCV business has zero inventory days.

Market share in SCV segment (April -August 2011)

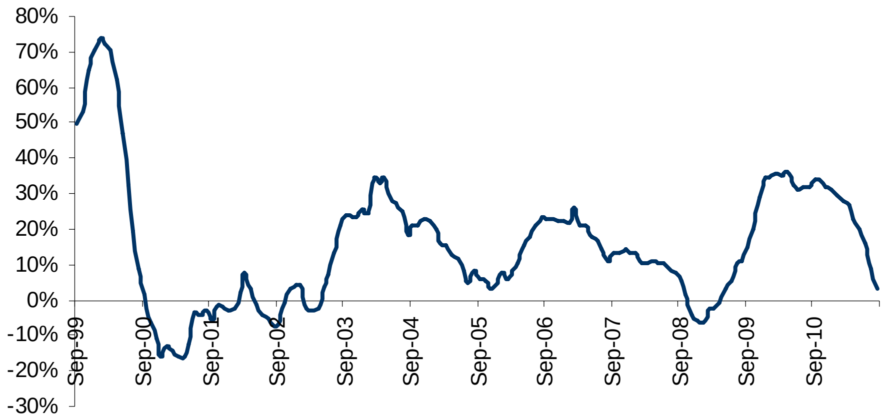


Source: Company , LKP Research

PV business underperforms, no sudden revival expected due to macro concerns and competition

Tata Motors' passenger vehicle (PV) business has been going through a rough patch as the entire Tata brand of PV has taken a beating in the last few months. The sector already grappling with macro concerns like rising interest rates, fuel prices and rising raw material prices is seeing slowdown in growth. As far as Tata Motors is concerned, competition from new players, weak portfolio, absence in premium hatchback segment and lack of new product launches is troubling the company. The company's car segment which has four models in the form of Indica, Indigo, Indigo Manza and Nano are all facing tough times due to success of rival new launches. In the hatchback cars segment, Indica and Indigo are facing severe erosion in market share (15% in April-August 2011 period v/s 17.5% yoy) as new entrants such as Ford Figo, GM Beat, Nissan Micra, VW Polo are scoring well in the eye of consumers as compared to limited and mature portfolio of Tata Motors. In the sedan segment, Indigo Manza has been performing poorly as Hyundai's new Fluidic Verna and VW Vento have made a big dent in Manza's market share(13.1% MS in April-August 2011 period from 31.1% yoy). On the UV side, Tata Motors is facing tough competition from M&M, GM and Toyota. In spite of recent new launches of Aria, Tata Motors is unable to threat the rival camp.

Average 6 monthly growth rate of PV industry (% yoy)

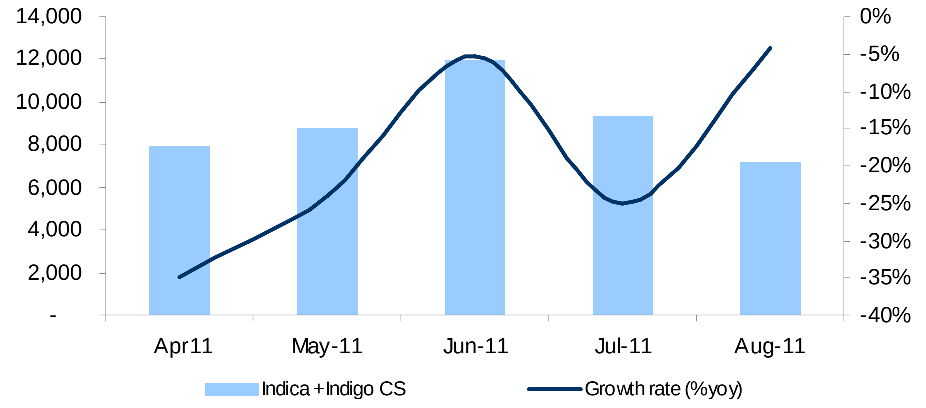


Source: SIAM , LKP Research

Underperformance in diesel portfolio to continue

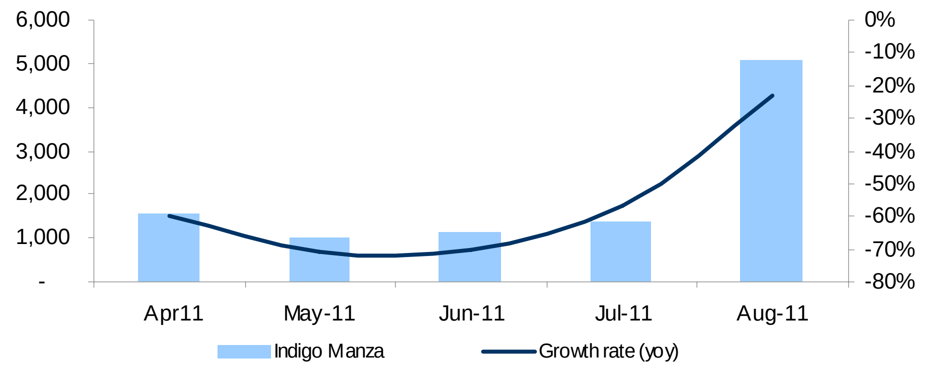
In spite of having a good diesel portfolio, Tata Motors has not been successful in taking advantage of the industry trend of shifting towards diesel cars as the company is absent in the rapidly growing premium hatchback segment(30% of total car volumes v/s 13% five years back). The company needs good products in the premium hatchback segment to regain its lost pride in the PV segment. There is no such move on the cards, given which we believe the underperformance of Tata Motors in this segment will continue over coming period. As far as profitability is concerned, PV segment did marginally break even at the EBITDA level, which was evident from 8.5% margins of standalone business in Q1 FY12, mainly due to Nano and competition to the PV portfolio excluding Nano. In order to maintain margins, the company has taken a 2% price hike on the CV side in July. As far as inventory management is concerned, the company has reduced its inventory days from 50 days to 21 days post the recent realignment of production.

Indica + Indigo CS volume trend



Source: SIAM , LKP Research

Indigo Manza volume trend

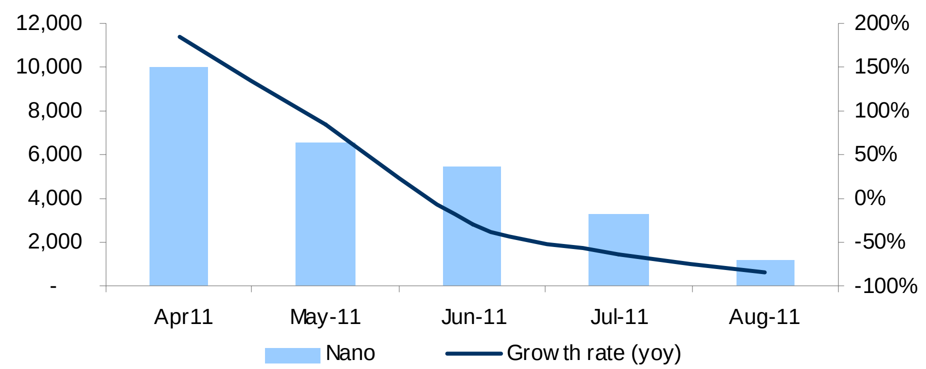


Source: SIAM , LKP Research

Nano – a big disappointment

Nano has been reporting inconsistent wholesale volumes ever since its launch. Off late, the model has started facing a consistent decline in sales and has dropped to 1200 mark in August. The company had taken a 15 day shutdown at the plant to realign production and inventory levels. However, the company has mentioned that the retail volumes are close to 6,500 units per month. We believe safety concerns, lack of proper marketing & distribution and perception of consumer of a 1 lakh car now costing more than ₹1.5 lakh are some of the deterring factors for the failure of Nano. Improved marketing efforts, reach and exports may help the company to revive the small car business. Currently there are 20,000 units of Nano as inventory between the company and the dealers. To promote Nano sales, the company is setting up 300 exclusive Nano dealers in Tier 3 and 4 cities.

Nano volume trend



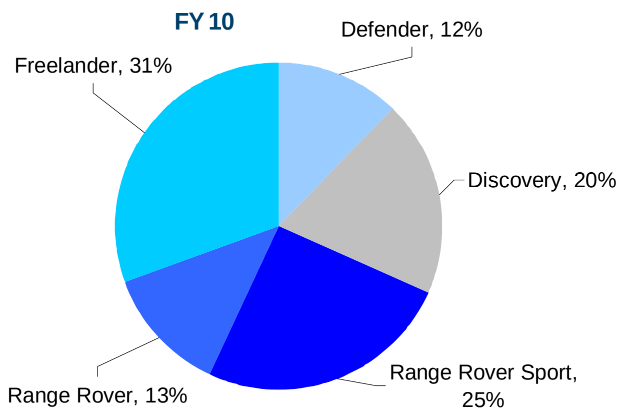
Source: SIAM , LKP Research

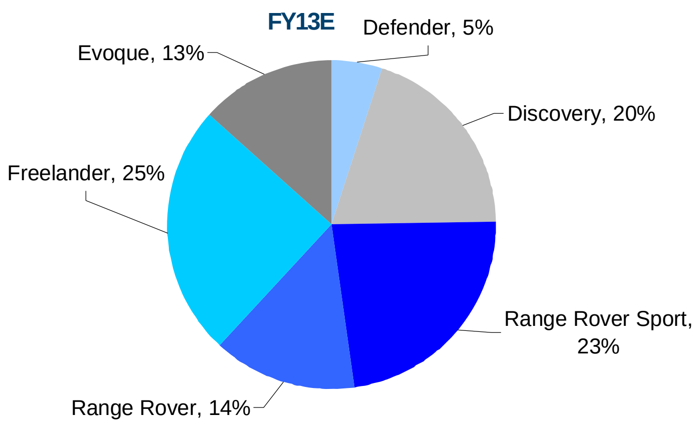
International operations – Land Rover to remain buoyant, Jaguar to improve; geographically developed nations to offset underperformance in Euro zone and UK

Evoque launch to be a game changer, Jaguar sales to fall this year

Land Rover (LR) is the bestselling brand of JLR. LR contributed 80% of total volumes of LR in FY 11, while 82% in Q1 FY12. LR has got five models in its portfolio – Freelander, Discovery, Range Rover, Range Rover Sport and Defender. Freelander is currently LR's best selling model, while Range Rover and Range Rover Sport are the most profitable. LR covers almost the whole range of luxury SUVs. Freelander and Defender lie in the Middle Luxury UV segment, Range Rover Sport and Discovery lie in the Middle Luxury Sport UV segment, while Range Rover Sport lies in the Higher Luxury Sport UV segment. Evoque will be launched in the Middle Luxury SUV segment where Defender and Freelander are placed. Evoque to be launched in September 2011 has got good initial response and has got 18,000 pre-launch bookings. Evoque clearly has the potential to be a big game changer for LR. It is the lightest LR model till date and will very well comply with the new emission norms at 180 gm/km. Evoque is the first model among the number of models to be launched by LR in the next five years. We expect LR to sell at least 20,000 Evoque this year. Jaguar volumes on the other hand have stagnated and will decline by 10% this year as concerns in the Euro zone increase. The upcoming launch of Jaguar XF 2.2 liter may help Jaguar to arrest the decline slightly in FY 12E, while improve the volume performance in FY 13E. While Evoque is expected to drive LR volumes, Jaguar volumes are expected to contract this year and thus the contribution to the total volumes will decline in FY 12E to 17% from 22% in FY 11.

Modelwise contribution trend (Land Rover)

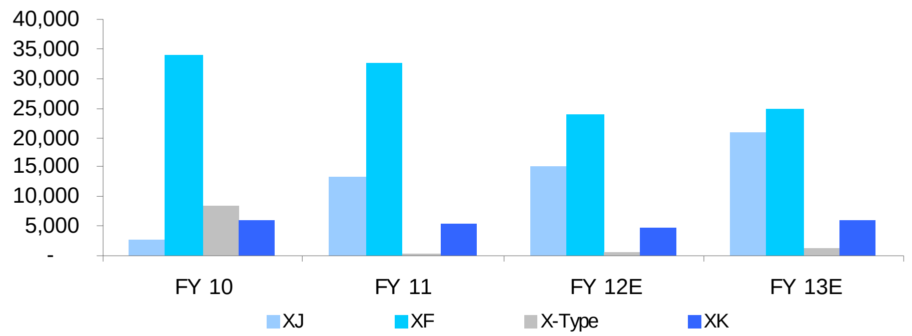




Source: Company , LKP Research

One of the reasons why Jaguar sales are falling is its absence in the lower luxury car segment, whereas its competitors BMW, Mercedes and Audi are present in all the segments of the luxury car segment. The lower luxury car segment contributes 40% of the luxury segment and is globally growing due to added thrust on the small vehicles considering emission norms. Jaguar is planning to enter this segment by launching Jaguar XE during FY 13.

Model wise growth trend in Jaguar



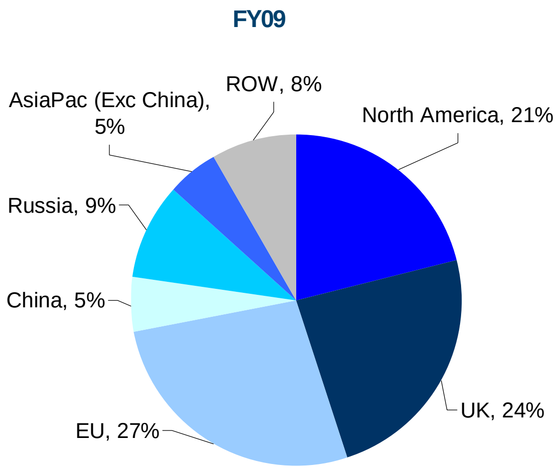
Source: Company , LKP Research

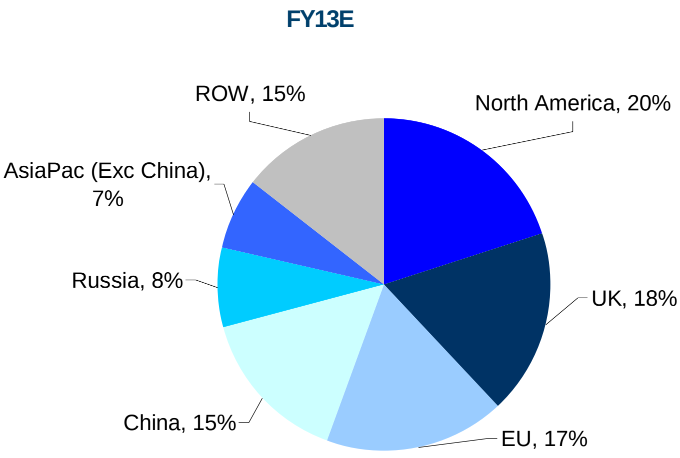
Car segment being too competitive and dynamic, new launches are utmost necessary as witnessed by the fall in Jaguar XF sales since launch of E Class, Audi A5 and A6. Despite having a younger product portfolio such as XJ and XF, Jaguar is facing stiff competition and losing ground. While, on the other hand SUV segment is less dynamic and hence we believe Evoque will score well in a relatively benign competitive environment. Also, LR has good brand equity in the SUV market although they have a fleet of old models. Following Evoque, LR will get fresh models in the summers of 2012 and 2013. LR will refurbish their entire fleet in the coming 5 years, while launching a new Defender (whose sales are falling) in FY 15 after 20 years. Hence, we believe that post younger fleet LR will have a strong traction in sales henceforth.

China to be the next growth haven

China contributed 11% to the total volumes of JLR in FY 11(16% in Q1 FY12) and has grown by 58% yoy in the same period (48% in Q1 FY12). Over the past few months, Chinese auto sector has started seeing some slowdown given the interest rate hikes and the congestion reduction measures taken by the government. The hike in interest rates may not have any significant impact on premium cars as the Chinese consumers buy premium cars through cash purchases. In order to reduce congestion, the Chinese government has restricted the number of registrations and license plates are auctioned. These measures are also expected to have a relatively lesser impact on premium cars given the higher price of the premium car, which implies that the incremental cost of license plate is not a heavy cost for them.

Geographical volume contribution trend in JLR

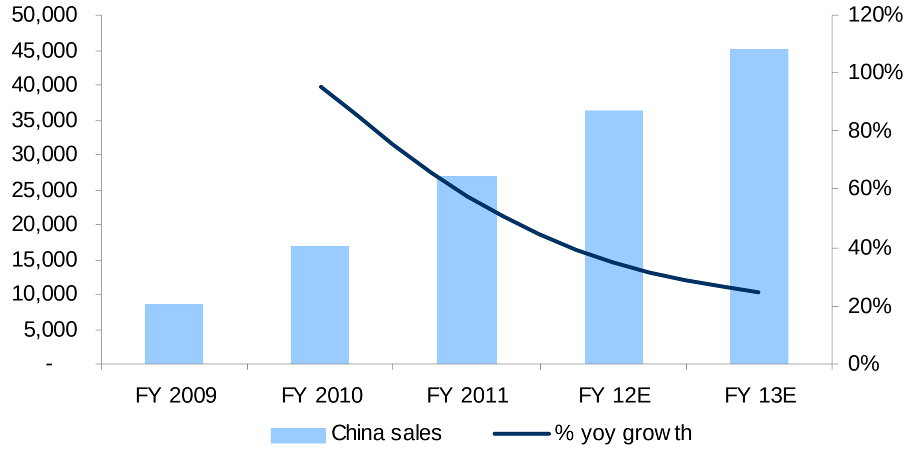




Source: SIAM , LKP Research

China has been the fastest growing market for JLR. The contribution from China in FY 11 has grown from 9.7% to 11% in FY 11 yoy, while the revenue contribution has grown from 9.7% to 16.6% in the same period. This indicates improvement of product mix driven by higher sales of Range Rovers and XJs in China, as the premium cars in China are showing consistent strong demand. This resulted in the realizations of China to shoot up by 71% yoy from GBP35,000 to GBP60,000 due to improved product mix. Chinese realizations are at 50% premium to the average realizations in developed countries. This differential is higher for the upper end of premium vehicles and is benefitting JLR as it is present mainly in the upper end of premium cars.

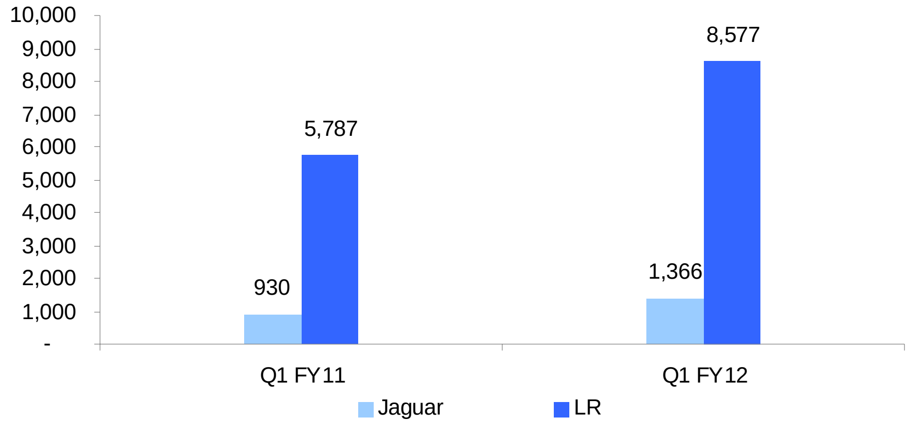
China sales trend and growth



Source: Company , LKP Research

In order to ramp up presence in China, JLR is in the process of increasing the number of dealers from 60 at the end of CY 10 (37 at the end of CY 09) to 100 by the end of CY 11, thus expanding their network deeply in China. JLR is also scouting for a new JV partner in China to set up a new assembly line. This would provide JLR with a direct access to the rapidly growing Chinese market. JLR also plans to launch models suited to the Chinese markets. The company plans to launch new LR products and introduce Jaguars with lower displacement engines as per demand from the Chinese markets. In the recently concluded Shanghai Autoshow, the company showcased The Jaguar XJ 3.0 liter, a model specially made for the Chinese market equipped with V6 engine and a six-speed automatic transmission. JLR has received an order from Chinese government to sell 40,000 units this year. We have estimated a 35% growth in China in FY 12 and 25% in FY 13.

China - Quarterly comparison

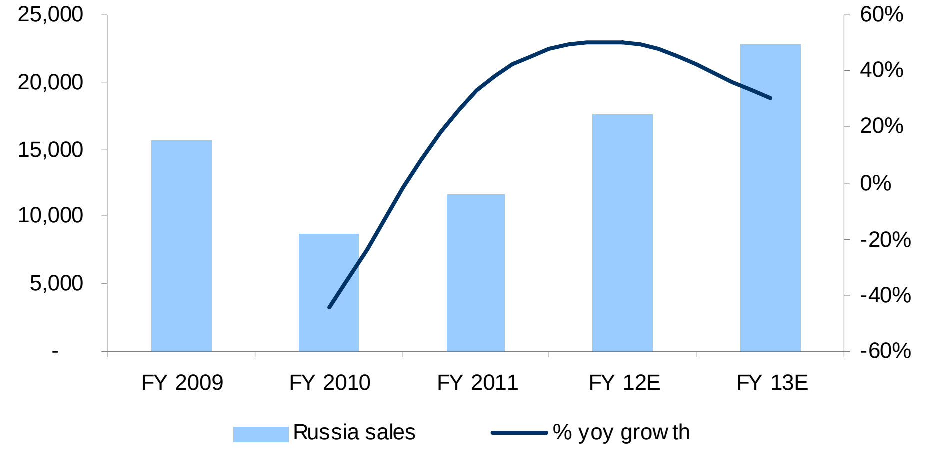


Source: Company , LKP Research

Russian markets have a strong growth potential

Russian markets are specialized with features such as low car penetration, growing economy, lower car interest rates and government incentives to promote auto growth. The Russian markets have grown by a robust 30% yoy in CY10. According to industry estimates, Russian markets are slated to grow at 20-25% in CY 11 to ~2.2-2.3mn. In the first half of CY 11, this market has already grown at 56% to 1.25mn units. In the short term the growth in these markets will see sharp growth on cash for clunkers scheme backed by the government, while in longer term, the lower car penetration of just 24% and rising demand for foreign cars will drive the growth.

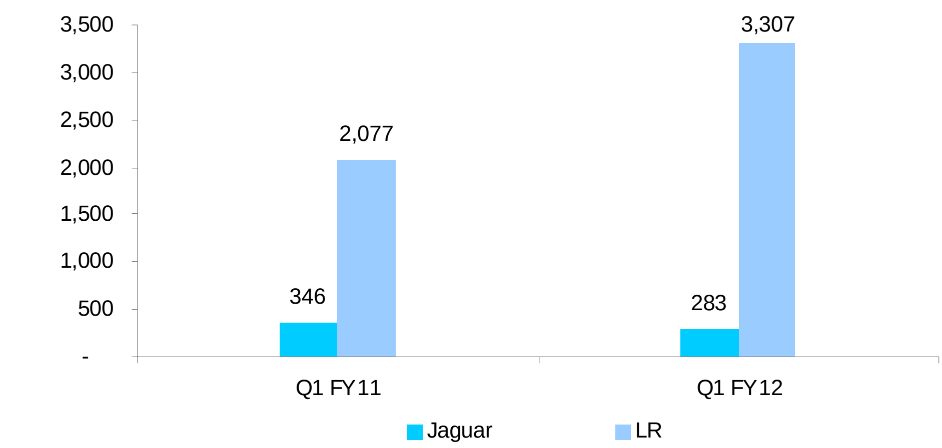
Russia sales trend and growth



Source: Company , LKP Research

JLR grew at 54% in Russia, out of which LR grew by 59%, while Jaguar declined by 18%. Russia now contributes ~6% of total JLR volumes. Going forward, we expect Russian markets for JLR to excel due to increasing consumer preference for foreign brands with Russia still being a major importer of vehicles. Also strong replacement demand will help the cause of JLR as 46% of the 31 mn vehicle population is 10 years older. Furthermore, local car makers are lagging in terms of quality and operational excellence as they are heavily leveraged. Thus, we believe that an old car fleet and low car density as compared to other developing economies will augur well for JLR's growth In Russia.

Russia - Quarterly comparison

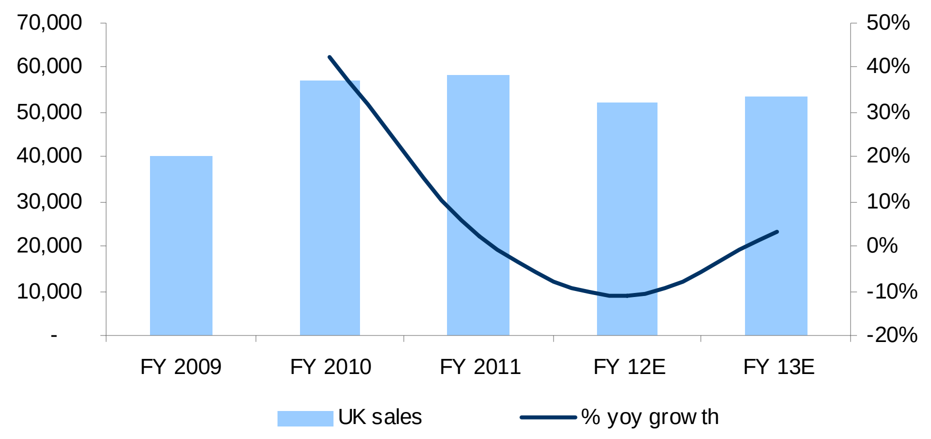


Source: Company , LKP Research

Concerns in US and Eurozone to aggravate on worsening economic conditions, thus hitting JLR sales there

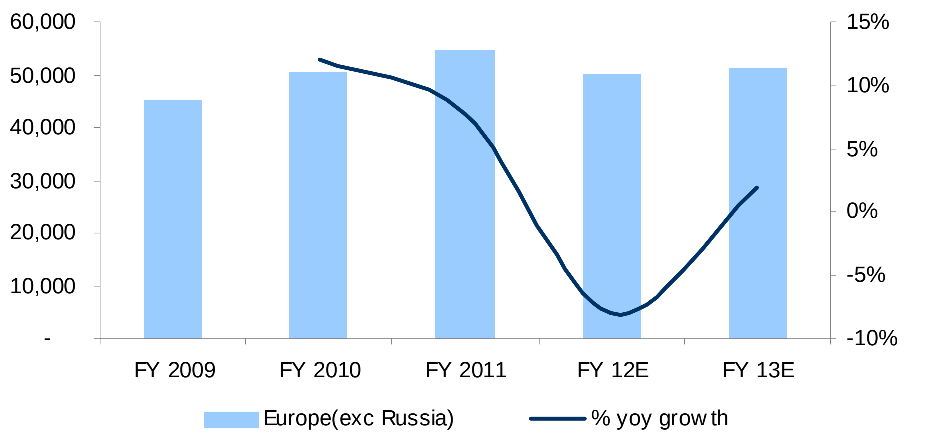
JLR earned 60% of its volumes from US, Europe and UK markets in Q1. In the US, the company has posted growth in both Jaguar (11.3%) and LR (10%), while in Europe exc. Russia, Jaguar sales have fallen by 33%, while LR sales have grown by just 1%. UK registered a 19.4% decline in overall sales, out of which LR declined by 15%, while Jaguar declined by 30% in Q1 FY12. These declines have come despite the UK and European premium car and SUV sales industries posting growth. The reason behind the decline in JLR sales in these two geographies can be attributed to the transition phase of JLR from old models to yet to be launched models such as Evoque and Jaguar XF. Absence of smaller engines (<3 liter) in the portfolio has also resulted in this fall. Also cessation of a few models by JLR has resulted in this decline. Going forward, with economic concerns looming large over Euro zone, we believe JLR sales to decline for the full year by 11% in UK and 8% in Europe, albeit the decline will be arrested up to a great extent by the new model launches.

UK sales trend and growth



Source: Company , LKP Research

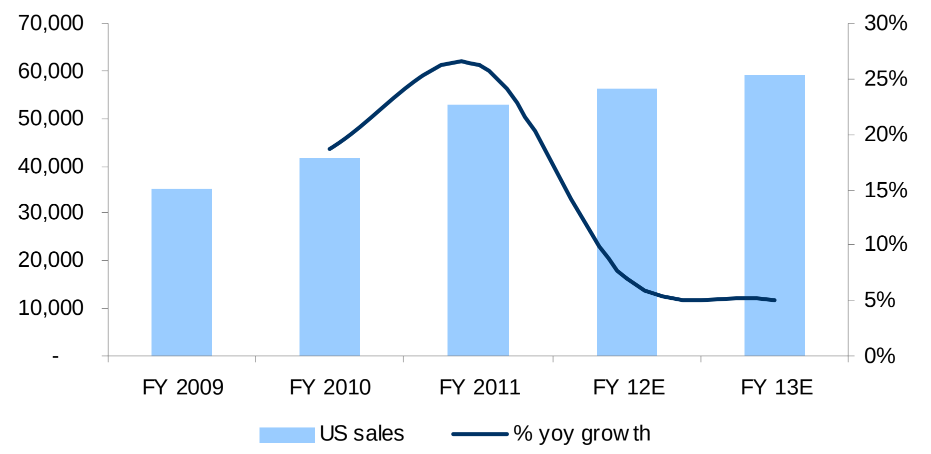
Europe (exc Russia) sales trend and growth



Source: Company , LKP Research

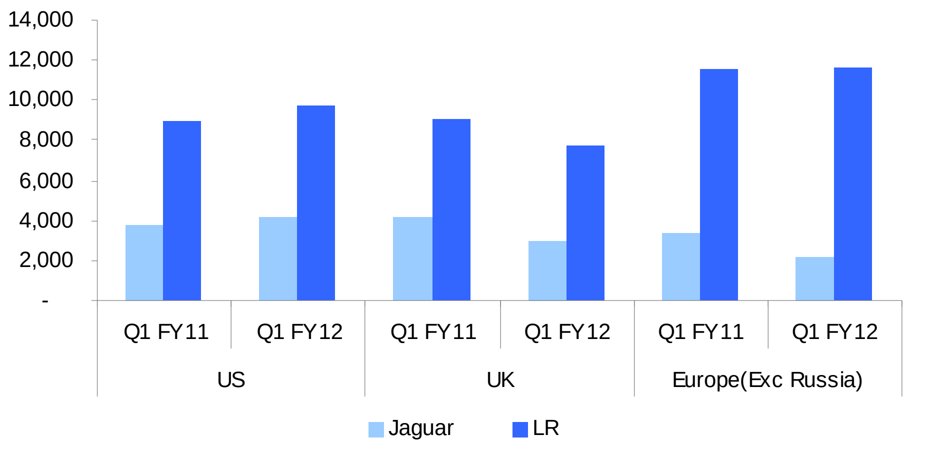
In the US, the premium car market has shown a decline of 8% in Q1 FY12, while SUV sales have grown by 6%, however, JLR has posted a growth of 10% driven by 11% Jaguar sales and 10% LR sales. Going forward, as US is posting weak economic data; we believe consumer sentiments to turn slightly negative, thus resulting in growth of just 7% in FY 12.

US sales trend and growth



Source: Company , LKP Research

US,UK,Europe(exc. Russia) Quarterly comparison



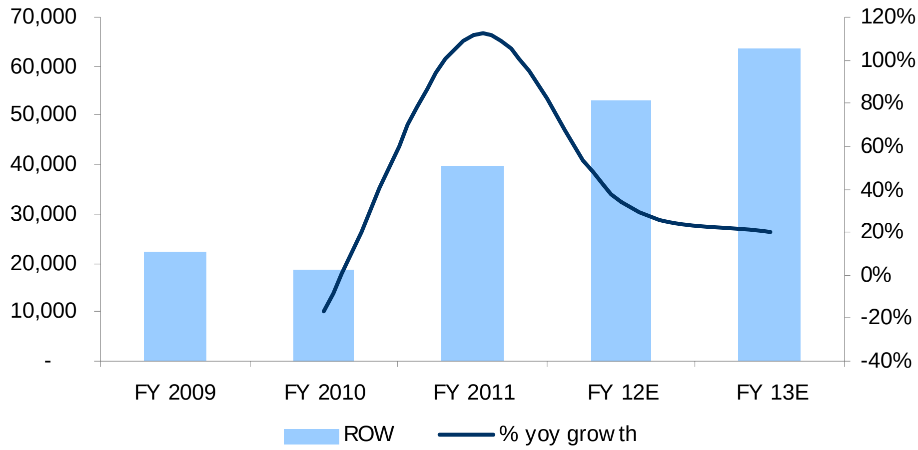
Source: Company , LKP Research

ROW countries like Brazil, India to augur well for top line growth

Among the Rest of World (ROW) markets, Brazil, South Africa, India are some of the markets where JLR is showing strong signs of growth. Brazil has become the world's fourth largest automobile market behind China, US and Japan with sales of 3.5mn units in CY 2010, up 12% yoy. Volkswagen, Fiat, GM and Ford are the top four players in Brazil. Brazilian markets are growing and have great potential for the auto industry to grow as the car density there is just 14%. Despite hike in interest rates the Brazilian car markets have grown at 10% in H1CY11, thus implying that the rate hike had no major impact on car volumes. When JLR was under Ford, Ford had shut down its JLR plant in Brazil. Brazil being one of the fastest growing car markets seems to be very important for JLR, due to which we believe sooner or later the company may open up the closed plant and improve its presence in Brazil.

India, though a small market for premium cars and in turn for JLR, is rapidly growing and has a great potential to become big considering improving incomes and low car density. JLR sells very small amount of models in India, but has recently set up a manufacturing plant at Pune and has started assembling and addressing the Indian car market. It will provide incremental growth for the company in near term and will offer great opportunity in the longer term. JLR are also considering India as a export hub for manufacturing its vehicles, which will give a significant pricing advantage to JLR over its rivals.

ROW sales trend and growth

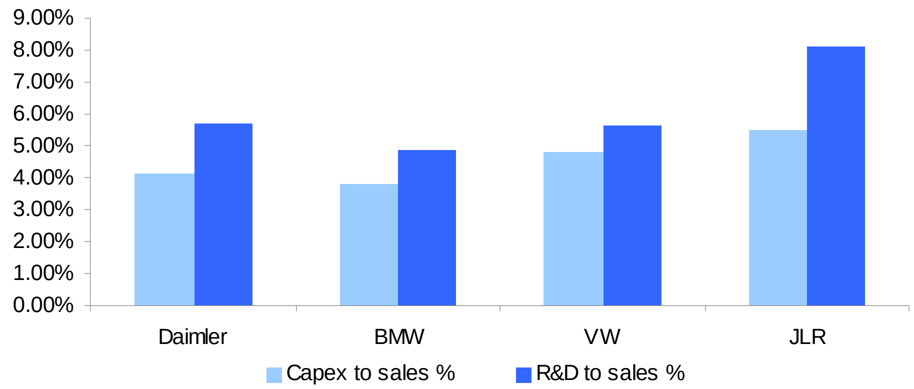


Source: Company , LKP Research

Higher R&D expenses to impact capex and margins

In order to comply with the emission norms (mandatory in Europe by 2012) wherein the company will not only have to reduce CO2 emissions but will also have to maintain same level of power. JLR has to spend a huge amount of money. Furthermore, a large capex will go for tooling as the company is in the process of launching too many vehicles in the coming five years. JLR sources engines from Ford which is putting constraints on production of JLR due to unexpected spurt in demand for LR and is reducing the operational efficiencies and increasing the dependence on Ford. While JLR has an agreement to source engines from Ford till 2017, still in order to cater to the rising demand for LR and support the new launches, we believe JLR will have to set up their new engine plant. JLR believes that constructing future vehicles in aluminium bodies will save a lot of cost along with reducing CO2 emissions and overall weight of the car which would result in usage of less expensive brakes and a less powerful engine. This may provide some respite to the margins of the company in an environment where capex and investments are rising. The company has raised their capex guidance to GBP7.5bn over the next 5 years for R&D and research purposes. While the rivals spend just 5-6% of net sales on R&D, JLR is spending >8% on R&D, thus impacting margins to the extent of the amount not capitalized (~50%).

Peer comparison for capex/sales(%) and R&D expenses to sales (%)



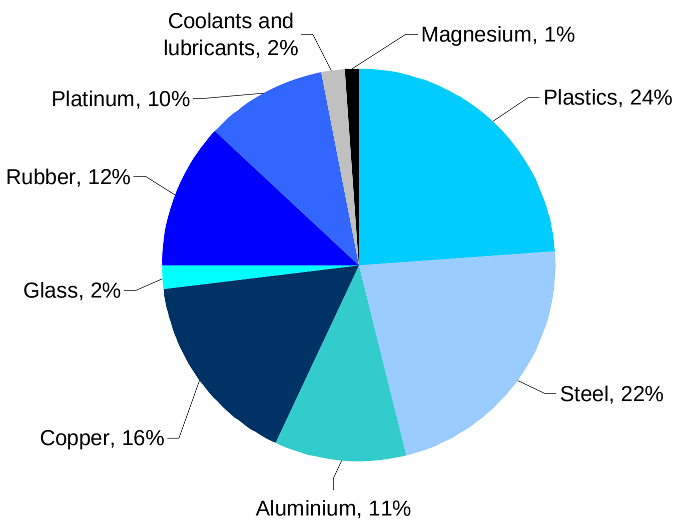
Source: Industry , LKP Research

Profitability to get impacted by Evoque launch, discounting in US and increase in raw material costs

The expected demand for Evoque will tilt the product mix in favor of low cost products, thus impacting margin performance of JLR. Furthermore, reduction in volumes of Jaguar especially of the XF model has resulted in the company doling out discounts on Jaguar. In the US markets, Jaguar is giving discount of $8000 per vehicle which has drastically gone up from $2000 per vehicle. It was also related to inventory cleanup of Jaguar models. However, with the upcoming launch of Jaguar XF 2.2 liter, we believe this discount to go down, however the total discount on a yearly basis will still remain.

JLR has annual raw material contracts similar to what other global OEMs have. Hence, despite raw material softening, JLR will not be able to get benefit of this till the end of FY 12. However, the value of commodities used in a premium car (steel 22% of total RM cost) is unlike that of a small hatchback car (steel >60% of total RM cost). Therefore, the impact of higher steel prices when the company has entered in to the contracts will slightly impact margin performance of JLR. Also, adverse currency impact due to appreciating GBP against USD and depreciating against Euro may impact margins negatively.

RM composition of luxury car



Source: Industry , LKP Research

Tata Motors is identifying synergies between JLR and Tata for joint product development and sourcing opportunities which would help the company to control costs. The parent is looking out for joint manufacturing facilities in cost efficient countries like India and China. Common vendor rationalization is also considered. As stated earlier setting up engine plant independent of Ford would help them to obtain operational efficiencies, while multiple use of common engines would improve economies of scale. We have forecasted EBITDA margins for JLR at 12.8%/13.01% in FY 12E/FY13E v/s 14.9% in FY11.

JLR better placed than 2008 to face the possible downturn

JLR debt has reduced to just GBP295mn, which was significantly high during the downturn in 2008 thus showing improvement in balance sheet. Secondly, the inventory days have reduced from 130 days to 70 days. The product life cycle has turned favorable and the break even volumes are now at 60% as compared to 80-85% of its production in 2008. Bounce back in margins and strengthening geographical presence has done it less susceptible to any possible economic downturn.

Assumptions

Standalone business

In line with the slowdown in the CV business, we expect MHCV business to grow at 7% in FY 12 v/s 18% in FY 11 and to improve by 9% in FY 13 as new models in the Prima segment will aid volume growth and interest rates are expected to peak out within one more round of hike thus living no room for any further hike. This will help growth of MHCVs in FY 13. LCV volumes are expected to grow by 17% in FY 12E and 13% in FY 13 as new capacities are added and the segment being fairly insulated from the macro headwinds.

On the PV side, we expect the dismal performance of the company to continue as competition intensifies and Tata Motors struggles to capture market share with its weak product portfolio. Indica, Indigo and Manza are facing significant market share erosion, which will continue leading to a negative 10% growth rate this fiscal. Disappointing performance from Nano will aid this fall in FY 12 as company is implementing production cuts and shutdowns to correct its inventory and adjust for the falling demand.

UV sales are expected to grow by a moderate 6% in FY 12, as this segment is unable to break the shackles created by M&M, Toyota and GM even with new launch of Aria. We expect this segment to grow at 7% in FY13.

Total sales of standalone business are expected to grow at 5% in FY12 and 11% in FY13.

Stand alone sales assumptions	FY 09	FY 10	FY 11	FY 12E	FY 13E
MHCV	122,984	167,829	209,522	224,189	244,366
% yoy		*36.5%*	*24.8%*	*7.0%*	*9.0%*
LCV	168,466	233,697	287,463	336,332	380,055
% yoy		*38.7%*	*23.0%*	*17.0%*	*13.0%*
Total CV	291,450	401,526	496,985	560,520	624,420
% yoy		*37.8%*	*23.8%*	*12.8%*	*11.4%*
Cars	166,716	207,036	263,274	236,947	260,641
% yoy		*24.2%*	*27.2%*	*-10.0%*	*10.0%*
UV	39,981	34,124	43,063	45,431	48,612
% yoy		*-14.6%*	*26.2%*	*5.5%*	*7.0%*
Total PV	206,697	241,160	306,337	282,378	309,253
% yoy		*16.7%*	*27.0%*	*-7.8%*	*9.5%*
Total stand alone sales	498,147	642,686	803,322	842,898	933,673
% yoy		*29.0%*	*25.0%*	*4.9%*	*10.8%*

As far as profitability is concerned, we expect standalone margins to move down to 8.6% in FY 12, 150 bps down yoy due to underperformance on the PV side and possible doling out of discounts to gain market share in that segment. Price hikes taken on MHCV side and ramp up of Tata Ace production may provide some support to the margins. FY 13 margins are expected to improve to 9% with RM costs easing.

JLR

We expect JLR volumes to grow at a slower pace in FY 12 mainly due to concerns in the Euro zone and the US (60% of volume collectively). We expect US/UK and Europe to grow at 7%/-11%/and -8% in FY 12 and 5%/3% and 2% in FY 13. The developing economies such as China, Brazil, India, Russia, South Africa etc are expected to support volumes going forward with the new launches of Evoque and Jaguar XF 2.2 liter in near future. Evoque having already received 18,000 order bookings gives us comfort that JLR will achieve our target of 9% volume growth in FY12.

Despite JLR sales falling in Europe and UK, the market for premium cars has grown there implying that new launches of JLR may assist to arrest this decline. Hence we estimate growth declines in these two markets to be less steep than those observed in Q1 FY12 (- 7.1% and -19.4% respectively).

Region	FY 2009	FY 2010	FY 2011	FY 12E	FY 13E
North America	35133	41700	52618	56301	59116
% of total	21.0%	21.5%	21.6%	21.2%	20.0%
% yoy		18.7%	26.2%	7.0%	5.0%
UK	40152	57100	58464	52033	53594
% of total	24.0%	29.5%	24.0%	19.6%	18.1%
% yoy		42.2%	2.4%	-11.0%	3.0%
EU	45171	50600	54566	50201	51205
% of total	27.0%	26.1%	22.4%	18.9%	17.3%
% yoy		12.0%	7.8%	-8.0%	2.0%
China	8700	17000	26796	36175	45218
% of total	5.2%	8.8%	11.0%	13.6%	15.3%
% yoy		95.4%	57.6%	35.0%	25.0%
Russia	15726	8800	11693	17540	22801
% of total	9.4%	4.5%	4.8%	6.6%	7.7%
% yoy		-44.0%	32.9%	50.0%	30.0%
AsiaPac (Exc China)	8365	8000	13021	17188	20625
% of total	5.0%	4.1%	5.3%	6.5%	7.0%
% yoy		-4.4%	62.8%	32.0%	20.0%
ROW	14053	10683	26463	35725	42870
% of total	8.4%	5.5%	10.9%	13.5%	14.5%
% yoy		-24.0%	147.7%	35.0%	20.0%
Total	167300	193883	243621	265162	295430
% yoy		15.9%	25.7%	8.8%	11.4%

On the margin front, JLR is expected to register a fall in margins in FY 12 with the launch of low cost Evoque, annual RM contracts leading to JLR not getting benefit of softening commodity costs, discounts in the US, adverse currency movement and heavy R&D spend. However, cost control measures taken by the company will restrict the fall in margins. We expect margins in FY 12E to fall to 12.8%, which will improve to 13% in FY 13E.

Outlook and Valuation

Tata Motors stock has fallen ~50% from its 52 week high in December 2010. On a consolidated basis, the stock is trading at a PE of 5.3x on FY 13E EPS of Rs 27 post split. We value this company on SOTP basis considering the differential in businesses and geographies of operations.

Standalone business is facing slowdown considering slowing of economy resulting in muted CV demand. However, strong presence in the LCV segment which is virtually insulated from the macro issues will be the savior. On the Passenger side, we do not have great hopes as the company rapidly continues to lose market share on competition, macro headwinds and competition from new players. On an EV/EBITDA basis, we value the domestic business at 5.5x which is at the lower range of its EV/EBITDA band and hence derive a value of Rs 86 from the domestic business.

On JLR front, slowdown in Europe and US will be offset by growth in developing countries like China, Russia, Brazil, India, South Africa etc. The company's ambitious investment plans in China are expected to deliver with new launches and rising demand over there. New launches such as Evoque and Jaguar XF will augur well for the volumes. Profitability will get impacted with adverse currency movements, launch of low cost products, structure of RM contracts and rising discounts. We believe FY 12 will see short term pain for the company and will face lesser headwinds in FY 13 considering further expansion of business and macro concerns getting mitigated.

Global OEMs are trading at 3.5-4x EV/EBITDA on FY 13E basis. We value JLR at 3x, which is at a discount to the likes of BMW and Daimler. We arrive at a JLR value of ₹110. We value the subsidiaries at ₹19, while net debt is valued at ₹43 per share.

On SOTP basis, we value Tata Motors at ₹172, with an upside of ₹21% from current levels. Hence, though there are concerns on both domestic and international businesses, we believe the stock on valuation and business prospects in FY 13 looks attractive.

Valuation

Standalone	
FY '13E EBITDA (₹mn)	52446
EV/EBITDA multiple (x)	5.5
EV (₹ mn)	288452
EV/share (₹)	86
JLR	
FY '13E EBITDA (₹ mn)	122728
EV/EBITDA multiple (x)	3
EV (₹ mn)	368184
EV/share (₹)	110
FY '13E Consolidated Net debt (Rs mn)	144731
Net debt/share (₹)	43
Subsidiary value (₹)	19
Target price (₹)	172
CMP (₹)	142
Upside (%)	21%

Scenario Analysis -

	Bear case		Base case		Bull case	
	FY 12E	FY 13E	FY 12E	FY 13E	FY 12E	FY 13E
Tata Motors Standalone						
MHCV volumes	219,998	230,998	224,189	244,366	230,474	253,522
EBITDA margins	7.4	5.9	8.6	9.0	9.6	10.4
EBITDA	37785	33504	44306	52446	49809	60816
EV/EBITDA multiple		4.5		5.5		6.5
EV		150768		288452		395304
JLR(Rs mn)						
Volumes	252757	269354	265162	295430	279012	316916
EBITDA margins	11.59%	12.22%	12.80%	13.01%	14.48%	13.85%
EBITDA	91677	105086	106202	122728	126474	140108
EV/EBITDA		2		3		4
EV		210172		368184		560432
Net debt	185000	170000	182721	144731	145000	115000
Subsidiaries value		19		19		19
Total fair value		76		172		282
Up/(Down) side (%)		-47%		21%		98%

Our bear case scenario indicates a 47% drop in the value of the company, while bull case scenario gives 98% upside, while base case shows an upside of 21%, which seems balanced.

Risks and concerns

- Aggravation of global concerns surrounding Euro zone and the US can have a significant negative impact on JLR business
- Failure of Evoque and slowdown in China may impact volumes negatively
- Consistently low industrial development in domestic markets may take its toll on the CV business
- Adverse currency and RM cost movements may impact margins negatively

Financial Summary (Consolidated)

Income statement

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
Total Revenues	**925,193**	**1,231,333**	**1,410,854**	**1,598,391**
Raw Material Cost	539,228	686,175	945,300	1,059,495
Employee Cost	87,518	93,427	97,293	110,870
Other Exp	172,845	227,436	260,748	294,197
Expenses trnsfd	(45,925)	(57,412)	(51,469)	(52,000)
EBITDA	**91,124**	**177,799**	**158,983**	**185,829**
EBITDA Margin(%)	*9.8*	*14.4*	*11.3*	*11.6*
Other Income	17,931	896	4,500	4,000
Depreciation	43,853	56,179	56,251	60,654
Exceptional items	2,596	-	-	-
Interest	22397	20454	20078	19307
PBT	**40,208**	**102,062**	**87,154**	**109,868**
Tax	10,058	12,164	15,396	19,063
PAT	**30,151**	**92,208**	**71,758**	**90,806**
Adj PAT	**28,097**	**90,426**	**71,118**	**90,166**
Adj PAT Margins (%)	*3.0%*	*7.3%*	*5.0%*	*5.6%*

Key Ratios

YE Mar (mn)	FY10	FY11	FY12E	FY13E
Per Share Data (₹)				
Adj. EPS	8.4	27.1	21.3	27.0
CEPS	21.6	43.9	38.2	45.2
BVPS	24.6	57.4	77.5	104.9
DPS	3.0	4.4	2.8	4.5
Growth Ratios(%)				
Total revenues	30.5	33.1	14.6	13.3
EBITDA	314.9	95.1	-10.6	16.9
PAT	N/A	221.8	-21.4	26.8
EPS Growth	N/A	221.8	-21.4	26.8
Valuation Ratios (X)				
PE	16.6	5.2	6.6	5.2
P/CEPS	6.5	3.2	3.7	3.1
P/BV	5.7	2.4	1.8	1.3
EV/Sales	0.8	0.6	0.5	0.4
EV/EBITDA	8.0	3.9	4.1	3.3
Operating Ratios (Days)				
Inventory days	45	42	43	45
Recievable Days	28	20	18	15
Payables day	231	197	150	140
Net Debt/Equity (x)	3.21	1.14	0.71	0.41
Profitability Ratios (%)				
ROCE	42	71	47	47
ROE	34	47	27	26
Dividend payout	28	14	12	15
Dividend yield	2.1	3.2	2.0	3.2

Source: Company , LKP Research

Balance sheet

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS				
Equity Share Capital	5,706	6,370	6,677	6,677
Reserves & Surplus	76,358	185,333	252,096	343,390
Total Networth	82,064	191,715	258,773	350,067
Total debt	351,084	327,914	322,091	294,941
Net Def. Tax Liability	17,708	20,961	21,961	23,961
Minority interest	2,135	2,466	2,466	2,466
Total Liabilities	**452,991**	**543,056**	**605,291**	**671,435**
APPLICATION OF FUNDS				
Net block	295,904	317,643	331,391	360,737
Capital WIP	89,159	117,289	97,289	77,289
Goodwill	34,229	35,848	35,848	35,848
Investments	22,191	25,443	35,443	45,443
Current Assets				
Cash and Bank	87,433	109,479	139,370	150,210
Inventories	113,120	140,705	166,210	197,062
Sundry Debtors	71,912	68,774	69,576	65,687
Loan, Advances	151,993	191,391	225,756	255,762
Current Liab & Prov				
Current liabilities	340,773	371,147	388,479	406,382
Provisions	76,435	98,692	113,436	116,544
Net Current Assets	**7,250**	**40,511**	**98,997**	**145,794**
Total Assets	**452,991**	**543,056**	**605,291**	**671,435**

Cash Flow

YE Mar (₹mn)	FY10	FY11	FY12E	FY13E
PAT	30,693	92,736	71,118	90,166
Depreciation	38,826	46,510	56,251	60,654
Interest	23,055	19,781	20,078	19,307
Chng in working capital	31,220	(16,943)	(28,595)	(35,958)
Tax paid	10,058	12,164	15,396	19,063
Other operating activities	(38,898)	(41,848)	(23,384)	(23,780)
CF from operations (a)	**94,953**	**112,401**	**110,864**	**129,452**
Capital expenditure	(84,532)	(81,128)	(50,000)	(70,000)
Chng in investments	(4,441)	(10,136)	10,000	10,000
Other investing activities	13,643	20,607	0	0
CF from investing (b)	**(75,331)**	**(70,657)**	**(40,000)**	**(60,000)**
Free cash flow (a+b)	19,623	41,745	70,864	69,452
Inc/(dec) in borrowings	23,438	(12,051)	(5,823)	(27,150)
Dividend paid (incl. tax)	(3,496)	(10,195)	(8,710)	(13,701)
Other financing activities	8,475	8,234	(17,595)	(17,761)
CF from financing (c)	**28,417**	**(14,013)**	**(32,128)**	**(58,612)**
Net chng in cash (a+b+c)	48,040	27,732	38,736	10,840
Closing cash & cash equiv.	**70,282**	**100,634**	**139,370**	**150,210**

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