

VISIT UPDATE

LARGE CAP

Share Data

| | |
|----------------------------------|---------|
| Reuters code | TELC.BO |
| Bloomberg code | TTMT IN |
| Market cap. (US\$ mn) | 13,364 |
| 6M avg. daily turnover (US\$ mn) | 99.8 |
| Issued shares (mn) | 633 |
| Target price (Rs) | 1,490 |

| Performance (%) | 1M | 3M | 12M |
|-----------------|-----|------|-----|
| Absolute | (3) | (17) | 43 |
| Relative | (0) | (7) | 41 |

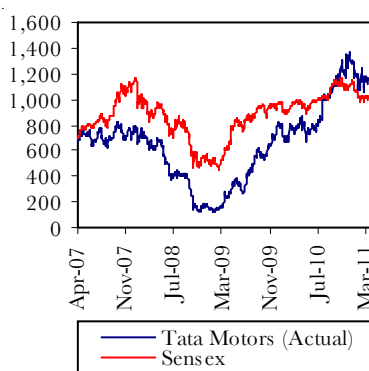
Valuation ratios (Consolidated)

| Yr to 31 Mar | FY11E | FY12E |
|--------------------|-------|-------|
| EPS (Rs) | 143.9 | 157.5 |
| +/- (%) | 661.0 | 9.5 |
| PER (x) | 7.8 | 7.1 |
| PBV (x) | 3.3 | 2.4 |
| Dividend/Yield (%) | 1.8 | 1.8 |
| EV/Sales (x) | 0.7 | 0.6 |
| EV/EBITDA (x) | 5.0 | 4.5 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 35 |
| FII's | 24 |
| MF's | 2 |
| BFSI's | 12 |
| Public & Others | 27 |

Relative performance



Tata Motors

Maintain BUY

Price: Rs 1,121

BSE Index: 17,839

21 March 2011

Evoque to accelerate growth momentum

We met the management of Tata Motors (TTMT) and our positive bias towards the company has been further strengthened. Following are the key-takeaways:

Jaguar Land Rover (JLR) business

JLR – Robust demand outlook

JLR volume guidance maintained at 235-240k and 270k units for FY11 and FY12, respectively. TTMT is fairly optimistic on Range Rover Evoque (launch in June/July 2011) and could exceed its volume guidance for FY12, based on the market response for Evoque.

Management expects the US market to grow by 10% and China by 30% in FY12. The European market is expected to be weak with flat or marginally negative growth in sales.

Management highlighted rising crude prices as a key risk for the luxury car market. Higher fuel prices could impact demand and lead to a preference for smaller, fuel efficient vehicles. Launch of the Evoque could help TTMT to alleviate the negative impact on demand due to high crude prices.

Priority (engine supplies) given to LR, being more profitable than Jaguar

Due to constraints on engine supplies from Ford, Land Rover has been prioritized, given that it is more profitable than Jaguar. This is the key reason for lower growth in Jaguar sales in FY11.

Adequate capacity exist for FY12

JLR currently has an installed capacity of 300k units (2-shift basis) which is sufficient for meeting demand in FY12. For FY13, a third shift operation with additional employees may be explored. Recently, the company has added 1500 employees and plans to further add another 1000 employees in JLR.

China facility expected in late 2012, Indian assembly to start in June 2011

Currently, TTMT is in the process of indentifying a suitable Chinese partner and expects to start the manufacturing/assembly facility in China by late 2012. Currently, China attracts a 50% duty on vehicle imports, which would reduce to 10-15% (on components import) following the establishment of this facility.

Indian assembly at Pune (LR Freelander model) will start in June 2011 with an annual capacity of 3k units.

Increasing the dealership network

Tata Motors is planning to increase its JLR dealerships in China from 35 to 100 over the next 2 years. Similarly, it plans to treble its dealership base from 4 to 12 dealers in India.

Margins sustainable ex-currency impact

Excluding the currency movement, TTMT maintained that its current margins (16.5%) are sustainable. Multiple margin levers exist such as improving product and market mix (higher China sales), higher sourcing from low cost countries, platform reduction, declining warranty cost, declining incentives etc, which would keep the margins healthy.

Indian operations

CV segment to grow by 15% in FY12

Volume guidance for FY12 given at 15% due to a high base. LCV segment would grow by 20-22%, while the MHCV truck segment is projected to grow by 10%. Growth in MHCV buses is expected to be <10% as supplies for buses under the JNNURM scheme are over.

TTMT has indicated adequate pricing power in the MHCV business over the short to medium term due to limited competition.

Pricing action undertaken for CV in Jan 2011 of 1.4% (5% taken so far in FY11) in view of pressures on commodity prices.

More variants to be launched on ACE platform

TTMT plans to launch 3 more models on its ACE platform in the near future i.e. 0.5 tonne (ACE Zip) and 1 tonne (Super ACE) under the goods category; and 0.5 tonne (Magic IRIS) under the passenger vehicle category.

To meet rising demand for LCV's, TTMT is planning to set up a new facility in Dharwad (with capex of Rs 12 bn) for 250k units.

TTMT has been providing for the National Calamity Contingent Duty (NCCD) for its Pantnagar operations with respect to the passenger variant of the ACE - Magic.

PV business to see mid-teens growth

Passenger Vehicle business would see a ~15-16% growth in FY12. TTMT is not planning any new platforms in the passenger car segment but would launch variants of existing models across various price points. TTMT would also launch a refresher of its Safari model and a variant of Aria (2wheel drive option).

TTMT has raised prices of its passenger vehicles w.e.f. April 2011 by around ~2% in order to pass on input cost pressures.

Nano sales gaining momentum

Nano is gaining momentum with the improved availability of finance and initiatives undertaken to target the semi-urban and rural customers. TTMT indicated that the Nano segment would achieve break even on reaching 60-65% capacity utilization (annual installed capacity is 250k units).

Consolidated

Capex guidance maintained

TTMT has maintained their annual capex guidance of 0.8-1 bn GBP for the JLR business and Rs 25-30 bn for Indian operations.

Debt-equity ratio now less than 1x

As on December 2010, gross consolidated debt stood at Rs 347 bn. Net automotive debt stood at 150 bn, with net gearing at 0.8x versus 1.7x in 2QFY11. Standalone net gearing stood at 0.7x.

Debt/Equity ratio now less than 1x

| | Rs (bn) |
|------------------------------|-------------|
| Gross debt | 350 |
| Cash & Cash Equivalents | 130 |
| Net debt | 220 |
| Vehicle finance | 70 |
| Net Automotive Debt | 150 |
| Net debt/equity ratio | 0.8x |

Source: Company

B&K's view

With the launch of the Evoque and higher sales from China, we expect TTMT to register healthy volume growth in FY12. While capacity constraints (primarily on engine supply) exist, management remains confident of achieving ~270k units in FY12 for JLR (against 235-240k in FY11E).

Multiple margin levers such as higher China sales, a better product mix (in favor of the more profitable LR) and various margin improvement measures would help upkeep JLR margins, in our view.

Domestic CV business would benefit from strong LCV demand and new launches in the sub-one tonne segment.

Key downside risk

Significant increase in the crude prices could impact JLR demand. Commodity price inflation and lower than expected IIP growth could act as a dampener for the Indian operations.

We maintain our Buy rating on Tata Motors with target price of Rs 1,490.

SOTP valuation

| Based on FY12E | Method | Multiple (x) | Discount (%) | Value/share (Rs) |
|------------------------|-----------|-----------------|-----------------|---------------------|
| Tata Motors standalone | EV/EBITDA | 8.5 | – | 553 |
| JLR | EV/EBITDA | 6.0 | – | 829 |
| Telcon (40%) | Deal | – | – | 33 |
| Tata Daewoo CV | PE | 12.0 | 20 | 6 |
| Tata Technologies | PE | 12.0 | 20 | 21 |
| HV Transmission (85%) | PE | 12.0 | 20 | 13 |
| HV Axles (85%) | PE | 12.0 | 20 | 13 |
| Tata Motors Finance | P/B | 1.5 | 20 | 22 |
| SOTP value | | | | 1,490 |

Income Statement (Standalone)

| Yr end 31 Mar (Rs mm) | FY10 | FY11E | FY12E | FY13E |
|------------------------------|----------------|----------------|----------------|----------------|
| Net sales | 353,981 | 466,937 | 559,124 | 662,405 |
| <i>Growth (%)</i> | <i>38.1</i> | <i>31.9</i> | <i>19.7</i> | <i>18.5</i> |
| Operating expenses | (315,588) | (422,255) | (506,620) | (601,160) |
| Operating profit | 38,393 | 44,682 | 52,504 | 61,245 |
| Other operating income | 2,124 | 2,868 | 3,298 | 3,694 |
| EBITDA | 40,517 | 47,550 | 55,802 | 64,939 |
| <i>Growth (%)</i> | <i>115.4</i> | <i>17.4</i> | <i>17.4</i> | <i>16.4</i> |
| Depreciation | (10,339) | (13,207) | (15,318) | (17,762) |
| Other income | 1,071 | 1,584 | 1,915 | 2,268 |
| EBIT | 31,249 | 35,927 | 42,399 | 49,445 |
| Interest paid | (12,462) | (11,837) | (10,457) | (10,602) |
| Pre-tax profit | 18,787 | 24,090 | 31,942 | 38,843 |
| (before non-recurring items) | | | | |
| Non-recurring items | 9,509 | (927) | – | – |
| Pre-tax profit | 28,295 | 23,163 | 31,942 | 38,843 |
| (after non-recurring items) | | | | |
| Tax (current + deferred) | (5,895) | (5,420) | (7,986) | (9,711) |
| Net profit | 22,401 | 17,743 | 23,957 | 29,132 |
| Adjusted net profit | 12,892 | 18,670 | 23,957 | 29,132 |
| <i>Growth (%)</i> | <i>329.3</i> | <i>44.8</i> | <i>28.3</i> | <i>21.6</i> |

Balance Sheet (Standalone)

| Yr end 31 Mar (Rs mm) | FY10 | FY11E | FY12E | FY13E |
|---------------------------------|----------------|----------------|----------------|----------------|
| Current assets | 122,292 | 175,436 | 186,019 | 233,218 |
| Investments | 218,074 | 217,938 | 217,829 | 217,742 |
| Net fixed assets | 164,369 | 180,453 | 191,098 | 201,620 |
| Other non-current assets | 7,915 | 7,915 | 7,915 | 7,915 |
| Total assets | 512,650 | 581,742 | 602,861 | 660,495 |
| Current liabilities | 173,727 | 216,673 | 250,148 | 286,268 |
| Total debt | 166,259 | 133,286 | 111,236 | 94,362 |
| Other non-current liab. | 23,001 | 23,001 | 23,001 | 23,001 |
| Total liabilities | 362,988 | 372,960 | 384,385 | 403,631 |
| Share capital | 5,706 | 6,335 | 6,361 | 6,639 |
| Reserves & surplus | 143,957 | 202,447 | 212,115 | 250,224 |
| Shareholders' funds | 149,662 | 208,782 | 218,476 | 256,863 |
| Total equity & liab. | 512,650 | 581,742 | 602,861 | 660,495 |

Cash Flow Statement (Standalone)

| Yr end 31 Mar (Rs mm) | FY10 | FY11E | FY12E | FY13E |
|---------------------------------|------------------|-----------------|-----------------|-----------------|
| Pre-tax profit | 28,295 | 23,163 | 31,942 | 38,843 |
| Depreciation | 9,521 | 13,207 | 15,318 | 17,762 |
| Chg in working capital | 45,085 | 33,932 | 18,633 | 22,321 |
| Total tax paid | 515 | (7,418) | (7,986) | (9,711) |
| Cash flow from oper. (a) | 83,417 | 62,883 | 57,908 | 69,215 |
| Capital expenditure | (27,969) | (29,291) | (25,963) | (28,284) |
| Chg in investments | (93,688) | 136 | 109 | 87 |
| Cash flow from inv. (b) | (121,657) | (29,155) | (25,854) | (28,197) |
| Free cash flow (a+b) | 55,448 | 33,592 | 31,945 | 40,931 |
| Equity raised/(repaid) | 14,068 | 56,238 | 2,482 | 26,732 |
| Debt raised/(repaid) | 34,604 | (32,974) | (22,050) | (16,873) |
| Dividend (incl. tax) | (3,457) | (9,919) | (14,861) | (16,744) |
| Cash flow from fin. (c) | 45,215 | 13,345 | (34,429) | (6,886) |
| Net chg in cash (a+b+c) | 6,975 | 47,073 | (2,376) | 34,132 |

Key Ratios (Standalone)

| Yr end 31 Mar (%) | FY10 | FY11E | FY12E | FY13E |
|-------------------|-------|-------|-------|-------|
| EPS (Rs) | 23.8 | 31.0 | 37.7 | 44.8 |
| EPS growth | 247.9 | 30.4 | 21.7 | 18.8 |
| EBITDA margin | 11.4 | 10.1 | 9.9 | 9.7 |
| EBIT margin | 8.8 | 7.7 | 7.6 | 7.5 |
| RoCE | 10.2 | 10.2 | 11.8 | 13.6 |
| Net debt/Equity | 95.8 | 30.4 | 20.0 | (2.8) |

Valuations (Standalone)

| Yr end 31 Mar (x) | FY10 | FY11E | FY12E | FY13E |
|-------------------|------|-------|-------|-------|
| PER | 47.1 | 36.2 | 29.7 | 25.0 |
| PCE | 26.1 | 21.2 | 18.1 | 15.6 |
| Price/Book | 4.1 | 3.3 | 3.3 | 2.8 |
| Yield (%) | 1.4 | 1.9 | 2.0 | 2.1 |
| EV/Net sales | 1.0 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA | 21.1 | 16.3 | 13.6 | 10.9 |

Du Pont Analysis – ROE (Standalone)

| Yr end 31 Mar (x) | FY10 | FY11E | FY12E | FY13E |
|----------------------|------|-------|-------|-------|
| Net margin (%) | 3.6 | 4.0 | 4.3 | 4.4 |
| Asset turnover | 0.8 | 0.9 | 0.9 | 1.0 |
| Leverage factor | 3.3 | 3.1 | 2.8 | 2.7 |
| Return on equity (%) | 9.4 | 10.4 | 11.2 | 12.3 |

Income Statement (Consolidated)

| Yr end 31 Mar (Rs mn) | FY10 | FY11E | FY12E | FY13E |
|--|----------------|------------------|------------------|------------------|
| Net sales | 925,193 | 1,219,162 | 1,410,618 | 1,602,632 |
| <i>Growth (%)</i> | <i>30.4</i> | <i>31.8</i> | <i>15.7</i> | <i>13.6</i> |
| Operating expenses | 844,033 | 1,048,929 | 1,223,102 | 1,396,050 |
| EBITDA | 81,160 | 170,233 | 187,516 | 206,582 |
| <i>Growth (%)</i> | <i>339.0</i> | <i>109.8</i> | <i>10.2</i> | <i>10.2</i> |
| Depreciation | 38,871 | 45,256 | 50,954 | 56,948 |
| Other income | 416 | 790 | 948 | 1,138 |
| EBIT | 42,704 | 125,767 | 137,510 | 150,772 |
| Interest paid | 22,397 | 20,925 | 19,735 | 18,335 |
| Pre-tax profit | 20,307 | 104,842 | 117,775 | 132,437 |
| (before non-recurring items) | | | | |
| Non-recurring items | 14,919 | (927) | 0 | 0 |
| Pre-tax profit | 35,226 | 103,915 | 117,775 | 132,437 |
| (after non-recurring items) | | | | |
| Tax (current + deferred) | 10,058 | 14,678 | 17,666 | 21,190 |
| Net profit | 25,169 | 89,237 | 100,109 | 111,247 |
| Adjusted net profit | 10,250 | 90,164 | 100,109 | 111,247 |
| <i>Growth (%)</i> | <i>NA</i> | <i>779.7</i> | <i>11.0</i> | <i>11.1</i> |
| Minority interests | 303 | 451 | 501 | 556 |
| Profit/(Loss) in resp of inv in Associate cos | 845 | 541 | 601 | 667 |
| Net income | 10,791 | 90,254 | 100,209 | 111,358 |

Balance Sheet (Consolidated)

| Yr end 31 Mar (Rs mn) | FY10 | FY11E | FY12E | FY13E |
|---------------------------------------|----------------|------------------|------------------|------------------|
| Current assets | 435,942 | 597,882 | 716,138 | 853,371 |
| Investments | 11,545 | 14,086 | 16,687 | 19,354 |
| Net fixed assets | 385,063 | 424,307 | 457,853 | 485,405 |
| Other non-current assets | 34,229 | 35,462 | 34,461 | 33,348 |
| Total assets | 866,779 | 1,071,737 | 1,225,139 | 1,391,478 |
| Current liabilities | 419,120 | 551,128 | 637,677 | 702,523 |
| Total debt | 351,924 | 291,924 | 271,924 | 251,924 |
| Other non-current liabilities | 11,536 | 13,221 | 12,720 | 12,164 |
| Total liabilities | 782,580 | 856,272 | 922,320 | 966,611 |
| Share capital | 5,706 | 6,335 | 6,361 | 6,639 |
| Reserves & surplus | 76,359 | 207,445 | 295,274 | 417,601 |
| Shareholders' funds | 82,064 | 213,781 | 301,635 | 424,240 |
| Minorities interests | 2,135 | 1,684 | 1,184 | 627 |
| Total equity & liabilities | 866,779 | 1,071,737 | 1,225,139 | 1,391,478 |

Cash Flow Statement (Consolidated)

| Yr end 31 Mar (Rs mn) | FY10 | FY11E | FY12E | FY13E |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| PBT | 25,711 | 104,932 | 117,876 | 132,548 |
| Depreciation | 38,826 | 45,256 | 50,954 | 56,948 |
| Direct taxes paid | (12,292) | (14,678) | (17,666) | (21,190) |
| Chg in working capital | 33,854 | 44,689 | 27,508 | 7,716 |
| Other operating activities | 7,171 | 20,925 | 19,735 | 18,335 |
| Cash flow from oper. (a) | 93,269 | 201,124 | 198,406 | 194,357 |
| Capital expenditure | (84,532) | (84,500) | (84,500) | (84,500) |
| Chg in investments | 11,220 | (2,541) | (2,601) | (2,667) |
| Other investing activities | (2,018) | 0 | 0 | 0 |
| Cash flow from inv. (b) | (75,331) | (87,041) | (87,101) | (87,167) |
| Free cash flow (a+b) | 8,737 | 116,624 | 113,906 | 109,857 |
| Equity raised/(repaid) | 283,665 | 56,238 | 2,482 | 26,732 |
| Debt raised/(repaid) | (225,529) | (60,000) | (20,000) | (20,000) |
| Dividend (incl. tax) | (3,496) | (14,776) | (14,837) | (15,485) |
| Other financing activities | (31,095) | (20,925) | (19,735) | (18,335) |
| Cash flow from fin. (c) | 23,545 | (39,463) | (52,090) | (27,088) |
| Net chg in cash (a+b+c) | 41,484 | 74,620 | 59,215 | 80,101 |

Key Ratios (Consolidated)

| Yr end 31 Mar (%) | FY10 | FY11E | FY12E | FY13E |
|-------------------|------|-------|-------|-------|
| EPS (Rs) | 18.9 | 143.9 | 157.5 | 167.7 |
| EPS growth | NA | 661.0 | 9.5 | 6.5 |
| EBITDA margin | 8.8 | 14.0 | 13.3 | 12.9 |
| EBIT margin | 4.6 | 10.3 | 9.7 | 9.4 |
| RoCE | 19.7 | 26.8 | 25.5 | 24.1 |
| Net debt/Equity | 3.2 | 0.6 | 0.1 | (0.1) |

Valuations (Consolidated)

| Yr end 31 Mar (x) | FY10 | FY11E | FY12E | FY13E |
|-------------------|------|-------|-------|-------|
| PER | 59.3 | 7.8 | 7.1 | 6.7 |
| PCE | 12.8 | 5.2 | 4.7 | 4.4 |
| Price/Book | 7.8 | 3.3 | 2.4 | 1.7 |
| Yield (%) | 1.3 | 1.8 | 1.8 | 1.8 |
| EV/Net sales | 1.0 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA | 10.3 | 5.0 | 4.5 | 4.1 |

Du Pont Analysis – ROE (Consolidated)

| Yr end 31 Mar (x) | FY10 | FY11E | FY12E | FY13E |
|----------------------|------|-------|-------|-------|
| Net margin (%) | 1.2 | 7.4 | 7.1 | 6.9 |
| Asset turnover | 1.1 | 1.1 | 1.2 | 1.2 |
| Leverage factor | 10.6 | 5.0 | 4.1 | 3.3 |
| Return on equity (%) | 13.1 | 42.2 | 33.2 | 26.2 |

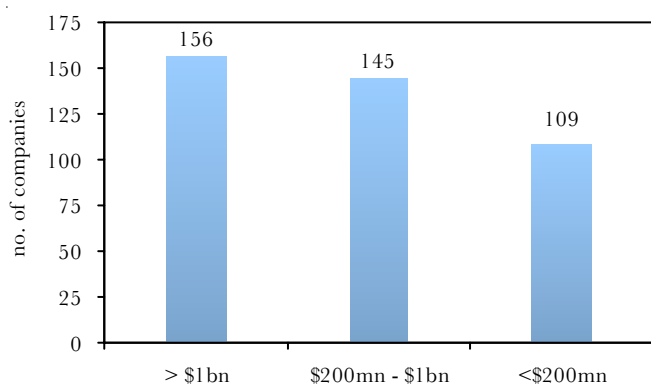
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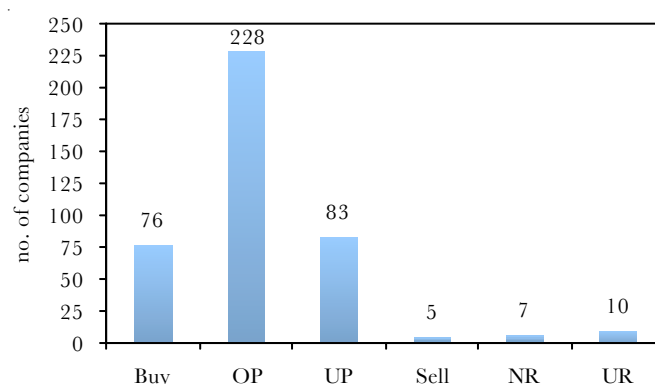
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

- BUY:** Potential upside of > +25% (absolute returns)
- OUTPERFORMER:** 0 to +25%
- UNDERPERFORMER:** 0 to -25%
- SELL:** Potential downside of < -25% (absolute returns)

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