



Tata Motors

BSE SENSEX
20,045S&P CNX
6,018

Rs1,070

Buy

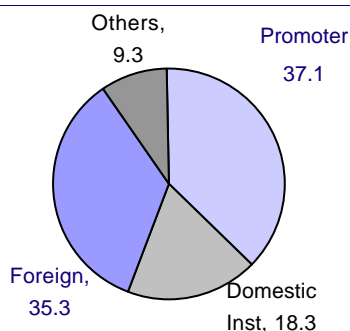
TATA MOTORS

Bloomberg	TTMT IN
Reuters	TAMO.BO
Diluted Eq.Shares (m)	624.1
52-Week Range	1,089/520
1,6,12 Rel. Perf. (%)	-4/30/58
M.Cap. (Rs b)	667.8
M.Cap. (US\$ b)	14.8

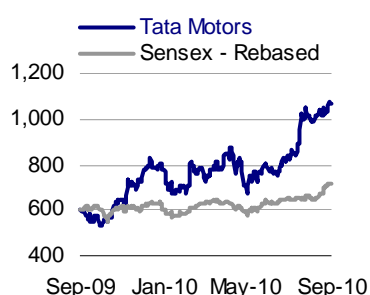
Y/E MARCH	2010	2011E	2012E
Sales (Rs b)	925	1,173	1,360
EBITDA (Rs b)	86	161	182
PAT (Rs b)	15	75	88
EPS (Rs)*	24.1	120.5	140.3
EPS Gr. (%)	-171	400	16
BV/Share (Rs)	143.8	252.4	381.3
P/E (x)	44.4	8.9	7.6
P/BV (x)	7.4	4.2	2.8
EV/Sales	0.9	0.7	0.6
EV/EBITDA (x)	9.9	5.2	4.6
RoE (%)	18.3	51.8	39.9
RoCE (%)	10.7	23.1	23.1

*EPS diluted

SHAREHOLDING PATTERN % (JUN-10)



STOCK PERFORMANCE (1 YEAR)



Positive outlook for both JLR and domestic business

JLR's 1Q margins sustainable subject to stable forex; Buy

We met with the management of Tata Motors to get an update on the business. Key takeaways:

Strong momentum in JLR with positive outlook on volumes and margins...

For JLR, the management has guided for FY11 volumes at 240,000-250,000 units. August 2010 volumes were down 16% MoM due to seasonality (plant shutdown and holiday season in UK). Although it is losing ~1,000 units/month due to engine shortage, it is working with Ford and its vendors and expects shortage to ease in next 3-4 months. It expects JLR's 1QFY11 EBITDA margins of 15.5% to sustain, subject to stable forex movement, as there has been significant improvement in underlying product mix (Jaguar portfolio has turned profitable) and market mix.

...with focus on controlling cost: The management's confidence to maintain JLR's higher level of profitability also stems from its focus on reducing both variable and fixed costs. It is targeting to increase share of RM sourcing from low cost countries (LCC) to ~35% from ~18% currently. It has lowered its break-even point to 60-65% from 80-85% earlier. It is further focusing on cutting it to 55-60%. Over next 2-3 years, it is planning an assembly line each in China and India for servicing local and regional markets.

Domestic business - strong growth ahead, although margins might come under pressure in 2HFY11:

The management believes it is at the beginning of new CV cycle which would be much stronger than previous cycles, due to far superior economic situation and balanced product mix between LCVs and M&HCV's. It is better placed, than previous cycles, to maintain its leadership driven by superior product portfolio. It believes LCV, especially the passenger segment, has significant potential to grow. It expects momentum in volumes to sustain driven by new product launches in LCVs, M&HCV's and UVs. However, EBITDA margins in domestic business would come under pressure due to RM cost push (on steel and tyres), impact of which will be partly diluted by price increase of 2.5-3% taken in FY11YTD.

Focus on further reduction in financial gearing by issuing equity: It is focused on further reducing financial gearing from ~Rs200b net debt as of Jun-10 or ~2x net debt-equity (excl. auto finance debt), by issuing further equity, internal accruals and monetizing investments. It plans to raise US\$500m through equity issue, although terms are not yet finalized, through mixture of DVR and normal equity shares.

Valuation and view: The management is confident of maintaining strong momentum in all its businesses. We model FY12 volume growth of 15% (to 280,000 units) in JLR, 15% in M&HCV's (to 249,000 units), 15% in LCVs (to 330,000 units). Further equity issuance will reduce its gearing, although our estimates do not factor in this dilution (~4-6%). The stock trades at 8.9x FY11E consolidated EPS of Rs120.5 and 7.6x FY12E consolidated EPS of Rs140.3, and normalized P/E (adj. for capitalization) of 16.6x FY11E and 12.5x FY12E. Our SOTP-based target price of Rs1,244 implies a FY12 target P/E multiple (on normalized earnings) of 14.5x. Maintain **Buy**.

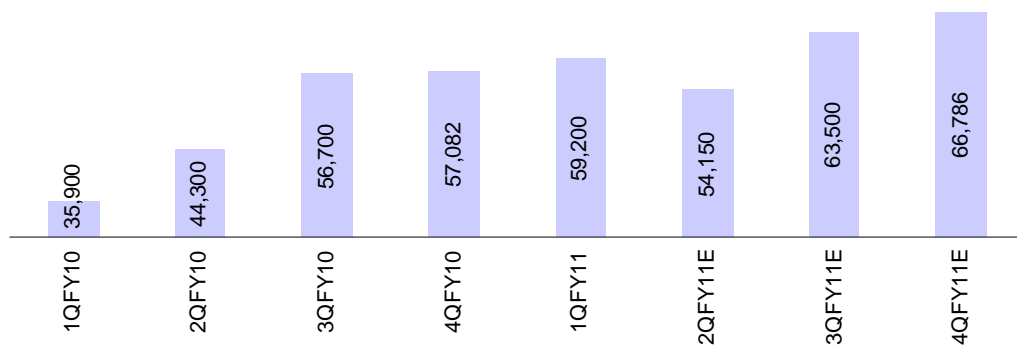
Jaguar Land Rover

FY11 volume guidance of 240,000-250,000 units

JLR is losing ~1,000 units/month due to engine shortage

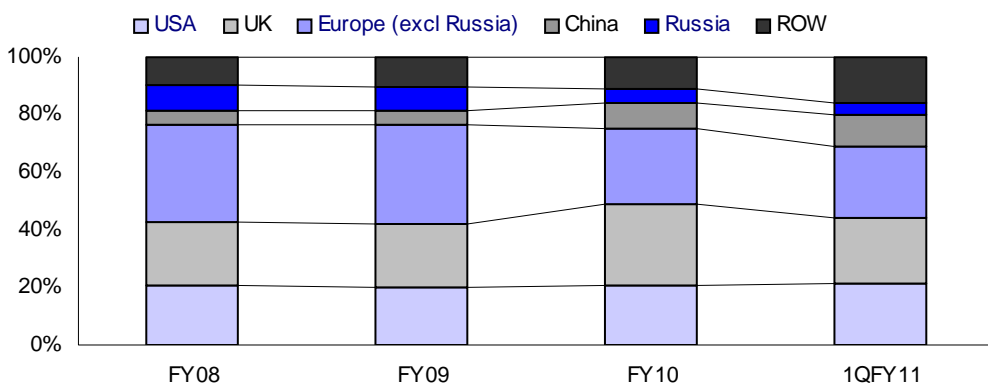
- It expects FY11 volumes at 240,000-250,000 units (our est 243,000). Aug-10 volumes were down 16% MoM due to seasonality (plant shutdown and holiday season in UK).
- It is losing ~1,000 units/month due to engine shortage, and expects this to be a constraint to raise FY11 volumes beyond 250,000 units. Ford, its engine supplier, is working to resolve issues at its end as well as bottlenecks at vendor ends, and expects the same to ease in next 3-4 months.
- It is focusing on increasing dealerships, especially in fast growing markets of China and US. Overall, it is focusing on scaling up existing dealers to have dealership for both Jaguar and Land Rover, with target of taking such common dealers for both brands to ~40% of total from the current ~25%.

TREND IN JLR'S VOLUMES (UNITS)



It expects FY11 volumes at 240,000-250,000 units (our est 243,000)

TREND IN MARKET MIX



Source: Company/MOSL

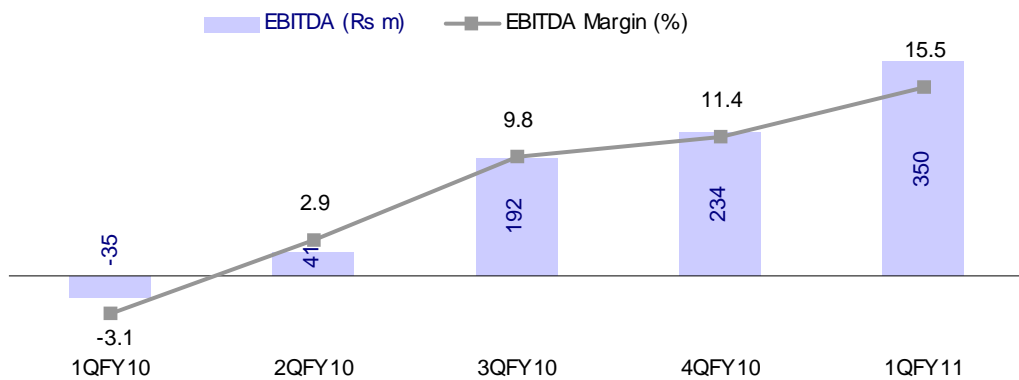
1QFY11 EBITDA margins of 15.5% sustainable if forex remains stable

- It expects JLR's 1QFY11 EBITDA margins of 15.5% to sustain, subject to stable forex movement. Its profitability in 4QFY10 & 1QFY11 has significantly benefited from favorable forex movement. We are estimating EBITDA margins of 14% in FY11 and 13.8% in FY12.
- It believes EBITDA margins can sustain at higher levels than historical average due to significant improvement in underlying product mix (Jaguar portfolio has turned

profitable) and market mix. China, though new for JLR, is its most profitable market; it expects its double its China volumes over next 2-3 years.

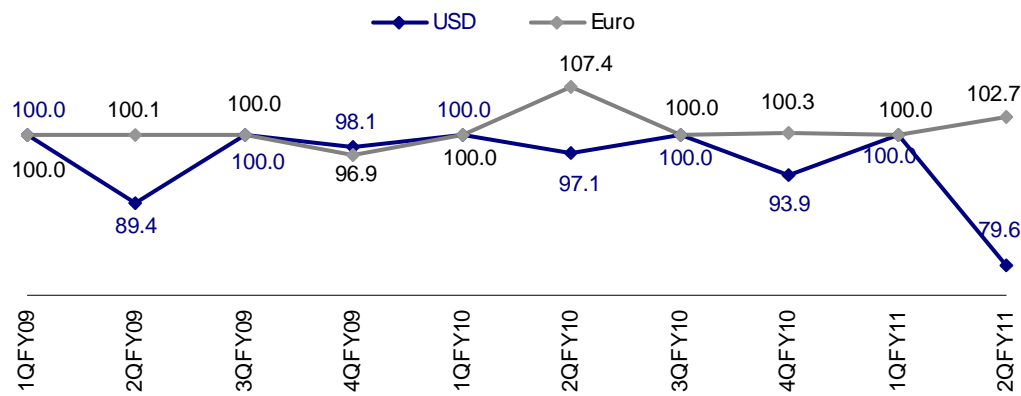
- It has machine capacity of ~300,000 units, whereas current manned capacity is ~250,000 units. It can increase manned capacity to 300,000 units by just adding manpower, which will provide significant operating leverage.

TREND IN JLR'S EBITDA



JLR's 1QFY11 EBITDA margins of 15.5% to sustain, subject to stable forex movement

TREND IN GBP MOVEMENT (INDEXED)



JLR's forex exposure:
 USD= ~40% of revenues as net exports
 EUR= ~20 % of revenues as net imports

Source: Company/MOSL

Focus on controlling cost

- The management's confidence to maintain higher level of profitability also stems from its focus on reducing both variable and fixed costs.
- It is targeting to increase share of RM sourcing from low cost countries (LCC) to ~35% from ~18% currently. Currently, East Europe is one of the major LCC sourcing destinations.
- JLR has lowered its break-even point to 60-65% from 80-85% earlier. It is further focusing on cutting it to ~55-60%.
- Over next 2-3 years, it is planning an assembly line each in China and India for servicing local and regional markets.
- It is also planning to have an R&D team in India to supplement its R&D in UK. R&D cost is ~5% of revenues.

JLR has lowered its break-even point to 60-65% from 80-85% earlier. It is further focusing on cutting it to ~55-60%

R&D expense would continue to be capitalized under IFRS

- The management indicated that it would continue to capitalize R&D cost under IFRS, like it is currently practicing in its SEC filings. It capitalizes R&D expense on new product development and amortizes it over 6-7 years. However, it would write off R&D spent on new technology (currently very low).

The management indicated that it would continue to capitalize R&D cost under IFRS

- It would continue to invest in its business and has guided for capex and product development spend of GBP0.8-1b.
- It plans to increase R&D manpower from ~3,700 engineers to ~5,000 engineers in next 12-18 months. Large proportion of this increase in R&D staff would be contracted or outsourced.
- On product development, its focus would be to (1) fill the gap in its portfolio (smaller Jaguar), and (2) create new segment (smaller Land Rover).

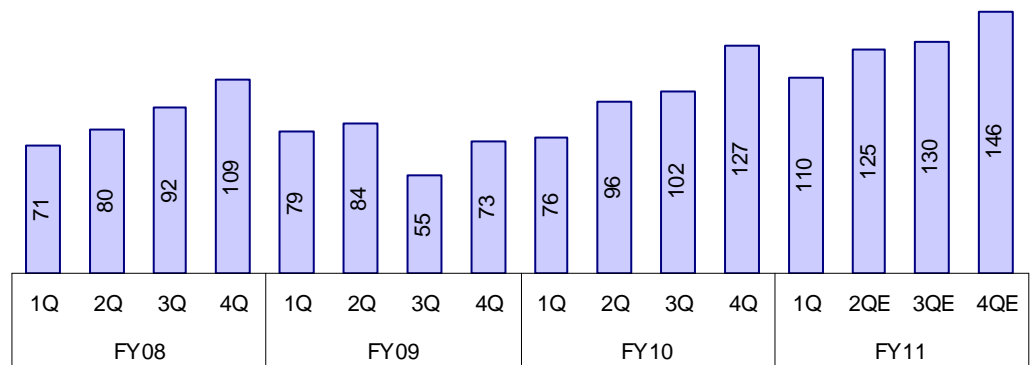
Standalone Business

CV: beginning of new stronger cycle

- The company believes we have just entered into new CV cycle which would be much stronger than previous cycles, due to far superior economic situation and balanced product mix between LCVs and M&HCV's.
- It is better placed, than previous cycles, to maintain its leadership driven by superior product portfolio. It believes LCV, especially the passenger segment, has significant potential to grow.
- It expects momentum in volumes to sustain driven by new product launches in LCVs and M&HCV's.
- However, in the short term it needs to manage its vendors so as to maintain momentum in volumes.

TREND IN TATA MOTORS CV VOLUMES ('000 UNITS)

Tata Motors is better placed, than previous cycles, to maintain its leadership driven by superior product portfolio



Source: Company/MOSL

Series of new product launches to drive volumes

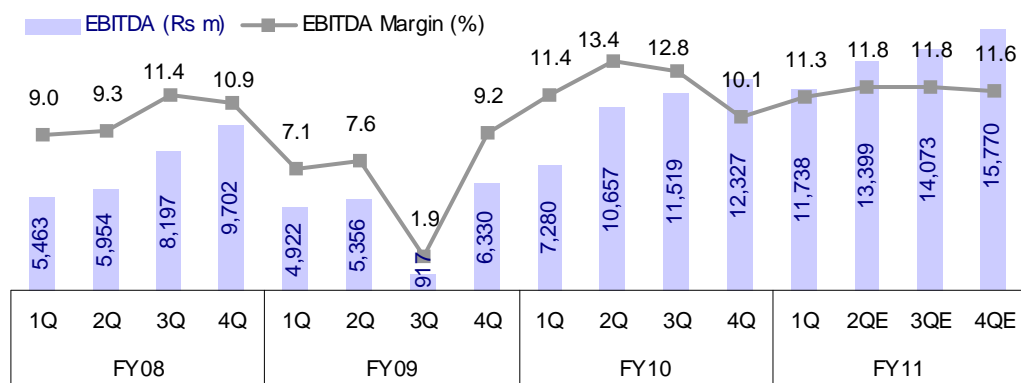
- It has a series of new product launches lined up for CVs and UVs.
- In LCVs, it plans to launch in 2HFY11 sub-1 ton (0.5 ton and 0.75 ton) cargo variants of Ace and in passenger segment, Tata Venture (MPV) and Magic Iris (competing with 3W in rural markets). It sees potential in LCV passenger segment and expects it to outgrow cargo LCV segment.
- In M&HCV's, it plans to gradually expand the Prima platform with ~100 variants expected to be in the market over next 2 years.
- In UVs, it plans to launch Aria in Oct-10. It would compete against Toyota Innova and would be attractively priced.
- Its car portfolio is relatively fresh and there are no plans for new launches.

EBITDA margins to remain under pressure

- The company indicated that EBITDA margins in domestic business would come under pressure due to RM cost push. It would be forced to allow price increase in tyres due to shortage.
- It has already taken price increase of 2.5-3% in FY11YTD to pass on cost push, which will partly dilute impact of further cost inflation. Further price increases might be difficult, especially considering expected increase in CV prices by 4-5% to pass-on BS-III compliance cost.
- Contrary to perception, it indicated that Nano is already profitable. It has witnessed higher demand for premium-end Nano, with 50% of Nano sold being high-end variants and 30% mid-end. Nano's profitability is further likely to improve as its volumes ramp up from ~10,000/month currently to ~20,000/month by Mar-11 (at full capacity). Further it can increase Nano's capacity at Sanand plant by investing in an additional line at relatively lower capex.

RM cost push due to higher steel & rubber prices would impact 2HFY11 margins

TREND IN EBITDA



Source: Company/MOSL

Focus on further reduction in financial gearing by issuing equity and monetizing investments

- It is focused on further reducing financial gearing from ~Rs200b net debt as of Jun-10 or ~2x net debt-equity (excl. auto finance debt), by issuing further equity, internal accruals and monetizing investments.
- It plans to raise US\$500m through equity issue, although terms are not yet finalized. The board is cognizant of the fact that it needs to balance interests of both the promoter and minority shareholders and hence would be raising funds through both DVR and normal equity shares.
- We estimate FCF generation of Rs50b in FY11, which will further help reducing debt.

It plans to raise US\$500m through equity issue, although terms are not yet finalized, through mix of normal equity shares & DVR

Valuation and view

- The management is confident of maintaining strong momentum in all its businesses. We model FY12 volume growth of 15% (to 280,000 units) in JLR, 15% in M&HCV's (to 249,000 units), 15% in LCVs (to 330,000 units). Further equity issuance will reduce its gearing, although our estimates do not factor in this dilution (~6-10%).
- The stock trades at 8.9x FY11E consolidated EPS of Rs120.5 and 7.6x FY12E consolidated EPS of Rs140.3, and normalized P/E (adj. for capitalization) of 16.6x FY11E and 12.5x FY12E. Our SOTP-based target price of Rs1,244 implies a FY12 target PE multiple (on normalized earnings) of 14.5x. **Maintain Buy.**

TATA MOTORS: SUM-OF-THE-PARTS (RS M)

	VALUATION PARAMETER	MULTIPLE (X)	FY11E	FY12E
EBITDA				
Tata Motors - Standalone	EV/EBITDA	8	439,835	506,799
JLR (Adj for R&D capitalization)	EV/EBITDA	4	233,694	281,057
HV Axles	EV/EBITDA	6	10,885	12,712
HV Transmission	EV/EBITDA	6	8,941	10,055
Tata Technologies	EV/EBITDA	8	13,059	13,391
Tata Daewoo	EV/EBITDA	5	12,046	15,164
Total EV			718,460	839,179
Less: Net Debt (Ex FCCB & TMFL)			115,988	113,522
Add: Other Investments				
Tata Motors Finance	P/BV	1	14,783	16,109
Other Associates/JVs	Carrying Cost		6,779	8,207
Tata Sons	Market Value	50% Discount	26,321	26,321
Total Equity Value			650,355	776,294
Fair Value (Rs/Share)	Fully Diluted		1,042	1,244

Source: Company

FY12E FAIR VALUE SENSITIVITY TO CV VOLUME GROWTH & EV/EBITDA

		VOLUME GROWTH (%)			
		10	15	20	25
EV/EBITDA (x)	6	1,013	1,041	1,069	1,097
	8	1,207	1,244	1,281	1,318
	10	1,400	1,447	1,493	1,540
	12	1,594	1,650	1,706	1,762

Source: Company

Tata Motors: Quarterly trends

CONSOLIDATED QUARTERLY PERFORMANCE										(RS MILLION)
RS M	FY10				FY11				FY10	FY11
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Total Op Income	163,970	211,002	260,443	289,778	270,556	272,319	302,376	327,379	925,193	1,172,630
<i>Growth (%)</i>	13.2	-8.2	47.1	84.6	65.0	29.1	16.10	12.98	30.5	26.7
EBITDA	5,959	15,916	30,575	33,691	39,533	36,455	40,981	43,886	86,142	160,855
<i>EBITDA Margins (%)</i>	3.63	7.54	11.74	11.63	14.61	13.4	13.55	13.41	9.31	13.72
Depreciation	8,442	8,479	13,072	8,878	10,115	10,622	11,552	12,345	38,871	44,635
Product Dev. Exp	930	858	857	2,337	979	1,026	1,246	1,376	4,982	4,627
Interest Expenses	5,835	5,590	5,458	5,514	5,616	5,824	5,917	6,181	22,397	23,538
PBT after EO Exp	-2,699	2,873	8,893	26,159	22,754	19,333	22,715	24,637	35,226	89,439
Tax	643	2,894	2,429	4,092	2,960	3,386	4,000	4,650	10,058	14,996
<i>Tax rate (%)</i>	-23.8	100.7	27.3	15.6	13.0	17.5	17.61	18.87	28.6	16.8
Adj PAT	-11,370	229	8,128	14,596	20,247	16,084	18,851	20,048	15,051	75,215
<i>Growth (%)</i>	-207.0	-90.2	-144.6	-292.8	-278.1	6914.6	131.93	37.35	NA	399.7

QUARTERLY PERFORMANCE (STANDALONE)										(RS MILLION)
Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	127,967	158,416	164,333	216,853	190,304	218,150	233,900	266,227	667,569	905,502
<i>Change (%)</i>	-3.9	17.4	66.6	55.5	48.7	37.7	42.3	22.8	31.9	35.6
Net Sales	63,502	79,241	89,298	121,697	103,519	112,739	118,461	134,926	353,738	469,645
<i>Change (%)</i>	-7.8	12.7	89.4	81.8	63.0	42.3	32.7	10.9	39.7	32.8
EBITDA	7,280	10,657	11,519	12,327	11,738	13,399	14,073	15,770	41,783	54,979
<i>EBITDA Margins (%)</i>	11.4	13.4	12.8	10.1	11.3	11.8	11.8	11.6	11.7	11.6
Interest	2,535	2,856	2,861	2,786	3,140	3,100	3,125	3,107	11,038	12,472
Depreciation & Amort.	2,291	2,634	2,641	2,772	3,074	3,100	3,250	3,255	10,339	12,679
PBT after EO Exp	5,480	9,068	5,550	8,196	5,368	7,049	7,398	9,806	28,295	29,620
Tax	343	1,777	1,549	2,226	1,419	1,713	1,798	2,268	5,895	7,198
<i>Effective Tax Rate (%)</i>	6.3	19.6	27.9	27.2	26.4	24.3	24.3	23.1	20.8	24.3
Adj PAT	2,200	4,440	4,176	4,240	4,434	5,336	5,600	7,031	15,424	22,423
<i>Change (%)</i>	-40.8	87.4	-376.6	218.9	101.5	20.2	34.1	65.8	207.4	45.4

E: MOSL Estimates; includes sale of FIAT vehicles

JLR QUARTERLY PERFORMANCE										(GBP MILLION)
GBP M	FY10				FY11				FY10	FY11
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Volumes										
Jaguar	11,600	11,800	13,100	10,918	15,500	14,000	16,000	17,000	47,418	62,500
<i>% of total volumes</i>	32.3	26.6	23.1	19.1	26.2	25.9	25.2	25.5	24.4	25.7
Land Rover	24,300	32,500	43,600	46,164	43,700	40,150	47,500	49,786	146,564	181,136
<i>% of total volumes</i>	67.7	73.4	76.9	80.9	73.8	74.1	74.8	74.5	75.6	74.3
Total Volumes	35,900	44,300	56,700	57,082	59,200	54,150	63,500	66,786	193,982	243,636
<i>Growth (%) QoQ</i>	10.1	23.4	28.0	0.7	3.7	-8.5	17.3	5.2		
Net Revenues	1,125	1,420	1,961	2,048	2,262	2,069	2,378	2,469	6,554	9,178
<i>Growth (%)</i>					101.1	45.7	21.3	20.6	31.8	40.0
EBITDA	-35	41	192	234	350	280	325	334	432	1,289
<i>EBITDA Margins (%)</i>	-3.1	2.9	9.8	11.4	15.5	13.5	13.7	13.5	6.6	14.0
Depreciation & Amortization	69	58	118	65	87	90	100	110	310	387
Product Dev. Cost	11	9	8	20	11	12	13	14	48	50
Interest & Discounting charges	13	10	11	19	17	18	19	19	53	73
PBT after EO Exp	-63	-52	57	90	234	160	193	191	32	778
Taxes	2	9	2	16	13	18	21	22	29	74
<i>Tax rate (%)</i>	-3.2	-17.3	3.5	17.8	5.6	11.0	11.0	11.6	90.6	9.5
Adj PAT	-124	-30	53	107	222	142	172	169	2	705

E: MOSL Estimates

Financials and Valuation

INCOME STATEMENT (CONSOLIDATED)					RATIOS (CONSOLIDATED)				
(RS MILLION)									
Y/E MARCH	2009	2010	2011E	2012E	Y/E MARCH	2009	2010	2011E	2012E
Total Income	708,810	925,193	1,172,630	1,360,110	Basic (Rs)				
Change (%)	98.8	30.5	26.7	16.0	EPS	-41.1	26.4	130.8	152.2
Expenditure	686,845	839,051	1,011,774	1,178,507	EPS Fully Diluted	-33.8	24.1	120.5	140.3
EBITDA	21,965	86,142	160,855	181,603	Normalized EPS ^	-113.4	-22.8	64.6	85.5
% of Net Sales	3.1	9.3	13.7	13.4	Cash EPS	7.7	94.5	208.4	237.9
Depreciation	25,068	38,871	44,635	49,251	Book Value (Rs/Share)	115.6	143.8	252.4	381.3
EBIT	-3,103	47,270	116,220	132,351	DPS	6.0	15.1	17.5	20.0
Product development Exp.	3,478	4,982	4,627	4,859	Payout (Incl. Div. Tax) %	-16.4	65.9	15.7	15.4
Interest	19,309	22,397	23,538	22,909	Valuation (x)				
Other Income	7,990	416	1,798	2,024	Standalone P/E	-26.0	40.6	8.2	7.0
PBT	-21,293	35,226	89,439	106,608	Consolidated P/E	-31.6	44.4	8.9	7.6
Tax	3,358	10,058	14,996	19,925	Cash P/E	139.5	11.3	5.1	4.5
Effective Rate (%)	-15.8	28.6	16.8	18.7	EV/EBITDA	38.5	9.9	5.2	4.6
Reported PAT	-24,650	25,169	74,442	86,683	EV/Sales	1.2	0.9	0.7	0.6
Change (%)	-210.3	-202.1	195.8	16.4	Price to Book Value	9.3	7.4	4.2	2.8
% of Net Sales	-3.5	2.7	6.3	6.4	Dividend Yield (%)	0.6	1.4	1.6	1.9
Minority Interest	114.8	-303.3	-508.2	-543.3	Profitability Ratios (%)				
Share of profit of associat	-517.3	845.0	936.7	1,427.8	RoE	-35.6	18.3	51.8	39.9
Net Profit	-25,053	25,711	74,871	87,568	RoCE	1.2	10.7	23.1	23.1
Adj. PAT	-21,125	15,051	75,215	87,568	Turnover Ratios				
Change (%)	-202.9	-171.2	399.7	16.4	Debtors (Days)	25	28	28	28
<i>E: MOSL Estimates; * Normalized for capitalized expenses</i>					Inventory (Days)	56	45	45	45
BALANCE SHEET (CONSOLIDATED)					(RS MILLION)				
Y/E MARCH	2009	2010	2011E	2012E	Creditors (Days)	95	88	88	88
Share Capital	5,141	5,706	5,752	5,752	Asset Turnover (x)	1.7	2.1	2.3	2.3
Reserves	54,266	76,359	139,452	213,560	Leverage Ratio				
Net Worth	59,406	82,065	145,204	219,312	Debt/Equity (x)	5.9	4.3	2.4	1.6
Loans	349,739	351,924	351,924	347,615	<i>E: MOSL Estimates</i>				
Minority Interest	4,030	2,135	2,643	3,187	CASH FLOW STATEMENT (CONSOLIDATED)				
Deferred Tax	6,802	11,536	11,536	11,536	(RS MILLION)				
Capital Employed	419,977	447,660	511,308	581,651	Y/E MARCH	2009	2010	2011E	2012E
Gross Fixed Assets	584,694	648,518	733,518	818,518	OP/(Loss) before Tax	-3,103	47,270	116,220	132,351
Less: Depreciation	332,691	344,135	388,770	438,022	Interest/Div. Received	18,517	23,055	1,798	2,024
Net Fixed Assets	252,003	304,383	344,748	380,496	Depreciation & Amort.	25,023	38,826	44,635	49,251
Capital WMP	105,330	80,680	50,000	50,000	Direct Taxes Paid	5,986	12,292	-14,996	-19,925
Goodwill	37,187	34,229	34,229	34,229	(Inc)/Dec in Wkg. Capital	13,450	-26,009	-32,146	-34,534
Investments	12,574	22,191	23,128	24,556	Other Items	-65,470	464	-5,602	-3,431
Curr.Assets	326,860	425,296	535,751	613,878	CF after EO Items	7,498	93,269	109,495	125,737
Inventory	109,506	113,120	143,374	166,296	(Inc)/Dec in FA+CWMP	-98,959	-84,532	-54,320	-85,000
Sundry Debtors	47,949	71,912	91,144	105,716	(Pur)/Sale of Invest.	-89,206	9,202	-937	-1,428
Cash & Bank Balances	41,213	87,433	106,402	105,034	CF from Inv Activity	-188,164	-75,331	-55,256	-86,428
Loans & Advances	128,166	152,807	194,807	236,807	Issue of Shares	41,097	16,852	46	0
Others	26	24	24	24	Inc/(Dec) in Debt	155,678	40,317	0	-4,308
Current Liab. & Prov.	321,202	417,208	476,548	521,508	Interest Paid	-23,867	-28,553	-23,538	-22,909
Sundry Creditors	185,190	221,875	281,215	326,175	Dividends Paid	4,724	-3,496	-11,777	-13,460
Other Liabilities	54,611	118,898	118,898	118,898	CF from Fin Activity	177,631	25,119	-35,270	-40,677
Provisions	81,400	76,435	76,435	76,435	Inc/(Dec) in Cash	-3,035	43,058	18,969	-1,367
Net Current Assets	5,658	8,088	59,203	92,370	Add: Beginning Balance	38,332	41,213	87,433	106,402
Misc. Expenditures	861	0	0	0	Closing Balance	41,213	87,433	106,402	105,034
Appl. of Funds	419,977	447,660	511,308	581,651	<i>E: MOSL Estimates</i>				

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

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Disclosure of Interest Statement

Tata Motors

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
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