

**Sell**  
Rs394

# Tata Motors

**Too much uncertainty over JLR and Nano project**

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**EVENT UPDATE**

## UPDATE ON JLR

Table 1: JLR sales numbers in June quarter

Category	April-June 2008	April-June 2007	Change (%)
Land Rover	52728	62141	(15)
Jaguar	22444	15074	49
<b>Total JLR</b>	<b>75172</b>	<b>77215</b>	<b>(3)</b>

Source: Company, Alchemy

- JLR has incurred a loss of US\$383mn on revenues of US\$7bn in January-June 2008. But it has shown some signs of recovery after it was taken over by the Tata group on June 2, 2008. JLR posted a profit of US\$58mn on revenues of US\$1.3bn in June 2-June 30, 2008.
- The consolidation of JLR is pending and integration of JLR's various subsidiaries, divisions and the Halewood facility will be a challenge. The future pension expenses at JLR operations could be costlier than anticipated and the market value of assets in JLR's pension plan could decline.

## UPDATE ON RIGHTS ISSUE

- JM Financial will underwrite 67% of its rights issue with differential voting powers. The Tata's have planned to subscribe this issue to the extent of their entitlement (33%). This means that the Rs1,960-crore differential voting rights (DVR) issue is fully underwritten.

## UPDATE ON "NANO"

- Tata Motors is in talks with the Karnataka government for shifting the Nano operations.

## VALUATION & VIEW

**The stock is trading at a P/E of 10.2x FY09E. We continue with our "Sell" recommendation.**

Reuters code	TAMO.BO
Bloomberg code	TTMT IB
Shares o/s (mn)	449.92
Mkt Cap	Rs177bn/US\$3.9bn
52 week high/low	Rs813/339
Avg daily trading volume	1.03mn shares
BSE Sensex	13570
Nifty	4127

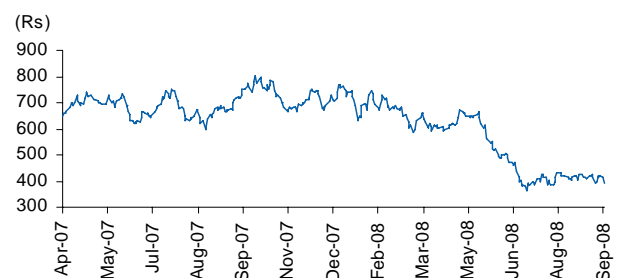
Shareholding Pattern	(%)
Promoters	33.4
FII's	15.2
Banks/FIs/MFs	17.6
Public/Others	33.8

## Performance (%)

	1M	3M	12M	YTD
Absolute	-4.4	-16.7	-45.1	-45.2
Relative*	1.5	-12.2	-33.0	-18.0

\* Relative to BSE Sensex

## Share Price Movement



## UPDATE ON RIGHTS ISSUE

### DVR rights issue fully underwritten

- The company is planning to raise Rs1,960crore through the differential voting rights (DVR) route and another Rs2,185crore is being raised through issue of ordinary shares. The DVR issue would give a shareholder a higher dividend but lower voting rights. The DVR issue is priced at Rs305 per share whereas the vanilla rights issue is priced at Rs340 a share. The shareholders will get one share for every six held. The proceeds of the rights offer will be utilized to part finance the acquisition of JLR brands.
- JM Financial will underwrite 67% of the rights issue with differential voting powers. The Tata's have planned to subscribe to the extent of their entitlement (33%). This means that the Rs1,960-crore differential voting rights (DVR) issue is fully underwritten.
- The prospectus says that Tata Motors has entered into an underwriting agreement with three entities of JM Financial group. However, there is no underwriting agreement for the vanilla rights issue.
- The issues open on September 29 to close on October 30.

## UPDATE ON "NANO"

### Tata Motors in talks with Karnataka government for shifting Nano operations

- Karnataka has promised 1000 acres of land to Tata Motors for its "Nano" project. It has also promised several incentives and facilities if the company decides to relocate. Tata Motors has suspended work at the Singur plant following protests led by opposition party Trinamool Congress.
- Tata Motors already has manufacturing plants in Dharwad in Karnataka from where it rolls out buses and tractors.

### Agreement of Tata Motors with the West Bengal government

Cheap labour and subsidized land were not the sole reasons for Tatas selecting Singur for its ambitious "Nano" project. The other reasons are listed below:

- The government worked out a package to match benefits enjoyed in Uttarakhand and Himachal Pradesh, both designated backward areas that attracted central tax concessions. The incentive package in these states comprised excise exemption for 10 years and 100% income tax exemption for the first five years and 30% for the next five years.
- Under the agreement, WBIDC would provides 645.67 acres to Tata Motors on a 90-year lease, on an annual lease rental of Rs1crore per year for the first five years with an increase at the rate of 25% after every five years till 30 years.
- The effective lease rental for Tata Motors would be Rs15,500 per acre annually, rising in keeping with an escalation clause.
- After 30 years, the lease rental will be fixed at Rs5crore per year, with an increase at the rate of 30% after every 10 years till the 60th year. After 60 years, the lease rental will be fixed at Rs20crore per year for 645 acres which will be unchanged till the 90th year. After 90 years, the lease terms will be fixed on mutually agreed terms.

- Further, the government will **lease 290 acres to Tata's vendors** on payment of a premium equal to the actual cost of acquisition plus incidentals (to be calculated on the basis of the total acquisition cost and other incidental expenses expended by WBIDC or any of its subsidiaries (duly certified by its auditor) averaged over the total land acquired).
- The lease rental payable per year per acre by the vendors will be Rs8,000 per acre for the first 45 years and Rs16,000 per acre for the next 45 years. The actual rate for commercial space in the area was around Rs25,000 per acre per year for high land, with low-lying or water logging-prone areas fetching Rs12,500 per month.
- The state government will provide to Tata Motors, a **loan of Rs200crore at 1% interest per year** repayable in five equal annual installments starting from the 21st year of the date of disbursement of loan.
- The state government will also provide **electricity for the project at Rs3 per KwH**, against the going rate of Rs4.15 per KwH. In the case of a more than 25 paise per KwH increase in tariff in every block of five years, the government will provide relief through additional compensation to neutralize the additional increase.
- The state government also promised to **revisit the computation** of the comparison of benefits offered by Uttarakhand and Himachal Pradesh.
- The state government would **repay Tata Motors the VAT and CST collected on each Nano sale**. This benefit will continue till the balance amount of the benefit offered by Uttarakhand was reached on a net present value basis, after which it is to be discontinued.
- Tata Motors and the government of West Bengal will make **joint efforts** to maximize sales of the car in West Bengal.
- The initial lease tenure will be 90 years, after which the lease terms will be fixed on mutually agreed terms at that point of time.
- The agreement says Tata Motors will manufacture 250,000 cars a year on a two-shift basis which could be expanded to 350,000 on three-shift basis.
- Tata Motors would be investing over Rs1500crore and vendors were likely to make further investment of over Rs500crore.

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