Indiabulls

TATA MOTORS LIMITED
RESEARCH

EQUITY RESEARCH | **October 1, 2007**

Results Review

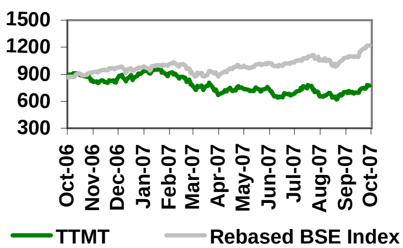
Share Data	
Market Cap	Rs. 297.9 bn
Price	Rs. 773.05
BSE Sensex	17,328.62
Reuters	TAMO.BO
Bloomberg	TTMT IN
Avg. Volume (52 Week)	0.4 mn
52-Week High/Low	Rs. 974.80/616.15
Shares Outstanding	385.4 mn

Valuation Ratios (Consolidated)

Year to 31 March	**2008E**	**2009E**
EPS (Rs.)	53.5	55.5
+/- (%)	(2.1)%	3.7%
PER (x)	14.4x	13.9x
EV/ Sales (x)	1.0x	0.9x
EV/ EBITDA (x)	8.2x	7.6x

Shareholding Pattern (%)	
Promoters	33
FIIs	18
Institutions	14
Public & Others	34

Relative Performance



Tata Motors — Buy

Volumes under pressure

Tata Motors Limited (TTMT) had a dissapointing first quarter, owing to steep rise in interest rates and increasing cost pressures. Inspite of the tepid growth of 1% in volumes, net sales increased 13.3% driven by higher price realisations. EBITDA margins declined 89 bps yoy to 11.3%. Net profit excluding foreign exchange gains stood at Rs. 2.9 bn, recording sharp decline of 32.3% yoy while net profit margins dipped by 260 bps yoy. Although, the Company exercised price revisions in FY07 as well as May FY08, but owing to rising input costs margins witnessed a downward trend.

Considering the lackluster performance of the Company, we have revised our earnings estimates downward by 3% for FY08E and 2.1% for FY09E. However, we expect the volumes to revive in the upcoming quarters on the back of new launches, approaching festive season and stabilising interest rates. We continue to remain positive on the long term growth prospects of the Company and maintain Buy rating on the stock.

Result Highlights

Tata Motors growth for Q1'08 has been much below the industry average with Passenger Vehicles growing at 3.9% and Commercial Vehicles at a negative rate of 2.3%. The industry growth rates for Q1'08 was 12.9% in Passenger Vehicles and 3.9% in Commercial Vehicles. The decline in growth rates were affected by an exorbitant rise of 350 bps in auto loan

Key Figures (Consolidated)

Quarterly Data	**1Q'07**	**4Q'07**	**1Q'08**	**YoY%**	**QoQ%**
(Figures in Rs. mn, except per share data)					
Volume (nos)	126,150	171,926	127,362	13.3%	(21.8%)
Net Sales	67,333	97,592	76,313	13.3%	(21.8%)
EBITDA	8,196	12,513	8,611	5.1%	(31.2%)
Net Profit	4,136	6,400	2,816	(31.9%)	(56.0%)
Margins(%)					
EBITDA	12.2%	12.8%	11.3%		
NPM	6.1%	6.6%	3.7%		
Per Share Data (Rs.)					
Normalised EPS	10.8	16.6	7.3	(32.4%)	(56.0%)

interest rates in a country where 80-85% of vehicles are bought on borrowed money. However, the setback was harder for Tata Motors due to increasing competition with the entry of other major auto players like Maruti Suzuki, Hyundai Motors, etc in the diesel car segment.

Declining market share in most of the Passenger and Commercial Vehicle segments

Market Share	Q107	Q108	(Inc)/Dec
M/HCVs	63.9%	59.0%	490 bps
LCVs	68.7%	65.5%	320 bps
Small Car	17.8%	16.4%	140 bps
Mid-size Car	32.7%	30.6%	210 bps
UV	17.6%	19.0%	(140) bps

Commercial Vehicles witnessed a decline of 2.3% yoy with volumes declining from 63,082 units in Q1'07 to 61,633 units in Q1'08. The decrease in Commercial Vehicles was owing to a steep dip of 10.9% yoy in Medium & Heavy Vehicles partially offset by 9.5% yoy increase in Light Commercial Vehicles on the back of overwhelming response from the newly launched Ace Magic. Apart from increasing transport freights and rising interest costs, the decline in Commercial Vehicles was also due to disruption in supply of engines from Tata Cummins which affected the sale of nearly 3,000 units of M&HV. Consequently, the market share of Tata Motors in the Commercial Vehicles segment shrinked by a massive 400 bps from 65.9% during Q1'07 to 61.9% in Q1'08. However, the disruption was temporary and going forward the Company is not expecting any such supply problems.

Marginal growth in Passenger Vehicles and Exports could not steer the results

Passenger Vehicles during the quarter showed a marginal increase of 3.9% yoy owing to slower growth in Small Cars at 4.3% yoy. While the Entry Midsize segment was badly affected by the decreasing demand of Tata Indigo and registered a sharp decline of 13.4% yoy; Utility Vehicles performed well due to rising sales of Tata Safari Dicor and grew by 19.3% yoy. Exports witnessed a slower growth of 5.5% on the back of strengthening rupee in the international markets. Exports of Commercial Vehicles rose by 24% yoy whereas of Passenger Vehicles declined by 21.2% yoy. The market share in the Passenger Vehicles segment also showed a downward trend declining from 16.2% in Q1'07 to 14.9% in Q1'08. Going forward we are expecting a decline in the market share of Passenger Vehicles as more and more car makers are launching various diesel variants of their successful cars.

Despite marginal rise in volumes, net sales surged from Rs. 67.3 bn in Q1'07 to Rs. 76.3 bn during Q1'08, growing by 13.3% yoy. The increase in

Higher interest rates adversely impacted revenues

net sales was driven by better price realisations and reduction in excise duty by 90 bps during Q1'08. The Company has curtailed production to the extent of 5%-6% in the first quarter of FY08 as compared to last year. Going forward, if necessitated, the Company is indicating to take bigger production cuts.

Increasing cost and declining volumes put margins under pressure

EBITDA for Q1'08 stood at Rs. 8.6 bn as compared to Rs. 8.2 bn in Q1'07, growing by 5.2% yoy. On the back of rising cost pressures EBITDA margins dipped by 89 bps during Q1'08. Product development expenses and staff cost for the quarter rose by 10 bps yoy and 30 bps yoy respectively. However, going forward we are expecting better margins as prices of most of the raw materials are stabilising.

Net profit excluding foreign exchange gains takes a nose dive

Net profit excluding foreign exchange gains for the quarter was Rs. 2.9 bn as compared to Rs. 4.3 bn for the same period last year, a decline of 32.3% yoy. Net profit excludes foreign exchange gains of Rs. 2.1 bn, which is on account of the translation of the foreign currency borrowings, deposits and loans. The decrease in net profit was also due to an increase in effective tax rate from 26.9% to 38.9% during Q1'08.

Key Events

Additional debt to finance capital expenditure

Issued USD 450 mn of Foreign Currency Convertible Alternative Reference Securities (CARS)

The Company recently issued USD 450 mn Foreign Currency Convertible Alternative Reference Securities (CARS) to finance its future commitment of capital expenditures. Tata Motors has proposed a massive expansion plan entailing a capital outlay of Rs. 120 bn in the next 3-4 years out of which Rs. 80 bn is to be spent towards new product launches and remaining towards capcity expansion and sustenance. The CARS will be convertible at an initial conversion price of Rs.960.96 per share, which is at a premium of 40% to the Company's closing share price on the National Stock Exchange as on June 20, 2007. The CARS are zero coupon and outstanding CARS, if any, at maturity will be redeemable at a premium of 31.8% of the principal amount.

New launches likely to contribute to both top and bottom line

Ace showing the magic

During the last month of the quarter Tata Motors introduced Ace Magic and Winger in the Light Commercial Vehicles segment. Ace Magic has received an excellent response and the Company is about to inaugurate a fully dedicated plant at Uttrakhand with the capacity of 200,000 units. With the inauguration of Tata Fiat JV in Ranjangaon, Tata Motors launched Fiat Palio Stile in the Indian market. The Company also launched Diesel Dicor in the entry level Sedan Indigo and Tata Spacio Gold Plus in the entry level utility vehicle.

Global tender in Tata Motors kitty

Bagged a prestigious order from DTC

The Company bagged a prestigious order from the Delhi Transport Corporation (DTC) for 500 Non-AC state of the art low-floor, CNG propelled buses. The Company won this order by participating in a global tender floated by DTC.

Key Risks

- Increased competition due to the entry of new players such as General Motors, Toyota and Chevrolet is likely to pose a threat to the passenger car segment of Tata Motors.
- Tata Motors has incurred a large capex and R&D expense on the 'one lakh car'. Any unforeseen delay or increase in expenses or less than expected response from market will have a negative impact on the Company's bottomline.
- The Company is bidding for the acquisition of two major 4 wheeler brands, Jaguar and Land Rover. The acquisition of these global brands by Tata Motors poses a risk to our rating.
- Prices of several inputs such as steel, non-ferrous metals, rubber and engineering plastics witnessed an upward movement in the recent past. A further rise in input costs and interest rates could affect the profitability of the Company.

Outlook and Valuation

Despite slower growth the future prospects continue to remain bright

Despite a bad quarter for Tata Motors we continue to hold a positive outlook on its long term growth. While there might be some short term hurdles for Tata Motors, the long term prospects remain bright. With Tata's small car in the pipeline, Passenger Vehicles sales in India hitting 1.4 mn units last year and are forecasted to nearly double by 2010, we are bullish on the performance of the Passenger Vehicles segment in the near future. Moreover, with the recent alliances with Iveco, Marcopolo and the global truck project in line, the Commercial Vehicles segment is expected to regain its growth momentum. However, limited products and reducing shelf life of vehicles remains a matter of concern in the growing auto market.

Taking in view the performance of the Company in the first quarter of FY08E, we expect the net sales to grow at a CAGR of 9.9% over FY07-09E. At the current price of Rs.773.05 the stock is trading at 14.4x FY08E and 13.9x FY09E earnings estimates.

We maintain Buy rating with the target price of Rs. 828 for FY08E.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Volume (nos)	399,561	454,345	579,378	631,123	692,645	9.3%
Net Sales	195,328	237,695	324,264	356,578	391,337	9.9%
EBITDA	24,295	29,765	40,308	44,163	47,593	8.7%
Net Profit	13,246	16,756	21,017	20,630	21,399	0.9%
Margins(%)						
EBITDA	12.4%	12.5%	12.4%	12.4%	12.2%	
NPM	6.8%	7.0%	6.5%	5.8%	5.5%	
Per Share Data (Rs.)						
Normalised EPS	36.8	44.5	54.7	53.5	55.5	0.8%
PER (x)	11.2x	21.0x	14.1x	14.4x	13.9x	

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