

Tata Motors

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'Nano' launch impressive, but not a major trigger

Tata Motors' Nano launch turned out to be an impressive affair (after all the difficulties it faced over the last 6-8 months), especially in view of the comprehensive homework done by the company in areas of financing, booking arrangements, customer response management and retention strategy, etc. 'Nano' will surely be considered as one of the biggest success stories in the Indian Automobile history, more so as it puts India on the global automobiles map. Having said this, we continue to maintain that domestic CV rebound and clarity on JLR's financials would be the biggest fundamental trigger for Tata Motors and not the 'Nano', which would still take a couple of years to achieve volumes that really make a difference to the company's bottom line. Our rating is under review.

Features are impressive, but there are a few drawbacks: With all the possible effort to encompass the basic customer requirements, Tata Motors has managed to provide few high-end features as well, which include tubeless tyres, central locking, front power windows, etc. However, we find the lack of boot space a key drawback for the model. Also, we find the pricing a bit higher than our expectations, with the on-road Mumbai price for the basic Nano Std working out to ~ Rs 1.45lakh. At the same time, a customer will be required to pay ~65-70% of the on-road price as an upfront booking amount, while the delivery may even take up to a year or so.

Large volumes only from FY11 and thereafter: Initial supplies of the Nano would be constrained due to limited capacity since the Sanand (mother) plant is still under construction and would be operational by Dec'09/Jan'10. Sanand (initial capacity of 2.5lakh, scalable to 5lakh p.a.) and Uttaranchal (60,000 p.a. capacity) plants together would start contributing large volumes from FY11 and thereafter. On the flip side, the delay gives sufficient room to existing/potential competitors like Bajaj Auto, Maruti and Hyundai to respond—a key risk to volume ramp up.

Our View: CV rebound (key profit centre), JLR will be the critical trigger

We believe that recovery in CV demand (mainly domestic MHCVs) would be critical to Tata Motors' profitability and will be a key trigger as it constitutes ~60% of its SA revenues and much higher at EBIDTA levels. YTD FY09, the company's CV sales are down 16% (MHCV down 30%). As discussed in our previous notes as well, JLR is an integral part of Tata Motors' growth prospects, going ahead. On a consolidated basis, it would constitute a significant part of the company's revenues and hence, more clarity on JLR's financials becomes essential for any investment call on Tata Motors. It also involves a US\$ 2billion repayment of the bridge loan (due by Jun '09) taken for the JLR acquisition. Tata Motors has recently raised money via FDs as well for this purpose. Our rating is under review.

Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net Sales	200,915	267,153	279,893	243,287	267,811
Growth, %	17.1	33.0	4.8	(13.1)	10.1
Core EBIDTA	25,901	32,472	27,853	15,771	20,253
EBIDTA margins, %	12.5	11.8	9.8	6.3	7.4
MF Net profit	13,790	18,483	15,532	6,254	5,338
NPM %	6.9	6.9	5.5	2.6	2.0
MF EPS, Rs	36.0	48.0	40.3	12.2	10.4
PER, x	4.5	3.4	4.0	13.3	15.6
EV/EBIDTA, x	2.9	2.8	3.2	8.0	6.8
EV/Net Sales, x	0.4	0.3	0.3	0.5	0.5
Price/Book Value, x	1.1	0.9	0.8	0.7	0.7
ROE, %	28.7	29.9	21.1	6.3	4.4
Dividend Yield, %	8.0	9.3	9.3	1.9	3.1

Note: Source: Company, MF Global India Research Estimates

Under Review
CMP Rs 162

Sector Rating

OW	N	UW

This note should be read for:

- Nano launch update
- Company update

Bloomberg code : TTMT IN
Reuters code : TAMO.BO
www.tatamotors.com

BSE Sensex : 9471
NSE Nifty : 2939

Company data

O/S shares :	450mn
Market cap (Rs) :	62bn
Market cap (USD) :	1.2bn
52 - wk Hi/Lo (Rs) :	767 / 122
Avg. daily vol. (3mth) :	3.1mn
Face Value (Rs) :	10

Share holding pattern, %

Promoters :	41.8
FII / NRI :	28.6
FI / MF :	16.9
Non-Promoter Corp. Holdings :	2.0
Public & Others :	10.7

Prices (Ex-Showroom)

Trim level/ Variant	Pant Nagar (Rs)	Delhi (Rs)	Mumbai (Rs)
Tata Nano Std (BS2)	112,735		
Tata Nano Std (BS3)	120,960	123,360	134,250
Tata Nano CX Solid Paint (BS2)	139,780		
Tata Nano CX Metallic Paint (BS2)	142,780		
Tata Nano CX Solid Paint (BS3)	145,725	148,360	160,320
Tata Nano CX Metallic Paint (BS3)	148,725	151,360	163,320
Tata Nano LX Metallic Paint (BS3)	170,335	172,360	185,375

Source: Company, MF Global India Research

Nano - Key Features

Items	Nano STD	Nano CX	Nano LX
Body Color Bumpers	-	-	Yes
Front Fog Lamps	-	-	Yes
Rear Fog Lamps	-	-	Yes
AC with Heater	-	Yes	Yes
Front Power Windows	-	-	Yes
Central Locking	-	-	Yes
Radial Tubeless tyres	Yes	Yes	Yes

Source: Company, MF Global India Research

PEER Comparison

Parameters	Nano	Maruti 800
Price (Ex-Showroom Mumbai), Rs	163,320	222,933
Overall Length (mm)	3099 mm	3335 mm
Overall Width (mm)	1495 mm	1440 mm
Overall Height (mm)	1652 mm	1405 mm
Wheelbase (mm)	2230 mm	2175 mm
Ground Clearance (mm)	180 mm	170 mm
Kerb Weight	600 kg	650 kg

Source: Company, MF Global India Research

Note: Ex-showroom price represents price of Nano CX Metallic and Maruti 800 AC

Other key details:

- Booking forms could be submitted at TML dealerships, select SBI branches, all Croma and Westside Outlets.
- Preferred financiers include SBI group, Bank of India, ICICI Bank, Corporation Bank, Punjab National Bank, Indian Bank and Axis Bank.
- Special rates offered by SBI at 11.75%-12% for a 3–7 year period.
- TML will announce 100,000 successful applicants (selected using the pseudo random number generation technique) within 60 days of booking closing.
- Interest will be paid on booking amount to retainees at 8.5% p.a. for the retention period of more than 1 year and at 8.75% p.a. for more than 2 years. Retainees would be intimated about the expected period of delivery.
- Deliveries would start from July 2009 and the initial 100,000 Nano deliveries would take a year or more.

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