

Tata Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,617	TTMT IN
	REUTERS CODE
S&P CNX: 3,110	TAMO.BO

26 July 2006

Buy
Previous Recommendation: Buy
Rs728

Equity Shares (m)	382.9
52-Week Range	997/415
1,6,12 Rel. Perf. (%)	-6/-3/12
M.Cap. (Rs b)	279.0
M.Cap. (US\$ b)	5.9

YEAR	SALES	PAT	ADJ EPS	Cons.	P/E	Cons.	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	EPS (Rs)	RATIO	P/E (X)	(%)	(%)	SALES	EBITDA
3/06E	206,022	14,278	37.0	42.9	19.7	17.0	25.8	26.0	1.4	10.7
3/07E	237,776	17,875	44.7	53.3	16.3	13.7	26.8	30.5	1.1	8.2
3/08E	270,533	20,980	52.1	63.4	14.0	11.5	25.9	30.2	0.9	6.9

- Tata Motors' 1QFY07 results were above expectations. Sales grew 49.1% to Rs57.8b on the back of robust 44.2% volume growth and 3.4% improvement in average realization. The CV segment registered a volume growth of 65% YoY v/s industry growth of 42% and the PV segment grew 24.1% YoY v/s industry growth of 20.4%.
- Aided by strong volume growth, and falling other expenditure/sales (14.7% in 1QFY07 v/s 15.9% in 1QFY06) and staff cost/sales (5.2% in 1QFY07 v/s 7.1% in 1QFY06), EBITDA margins expanded 80bp YoY to 13% despite input cost pressure. Our EBITDA margin calculation is adjusted for forex loss of Rs783m in 1QFY07 v/s forex gain of Rs145m in 1QFY06 and reversal of export incentive of Rs355m.
- Strong EBITDA growth of 58.6%, higher other income at Rs859m v/s our expectation of Rs350m and lower effective tax rate of 23.3% v/s our expectation of 27.6% resulted in 52.7% YoY growth in adjusted PAT to Rs4.2b.
- International business contributed 16% of total revenues in 1QFY07. The Finance business contributed 6.5% in 1QFY06 to EBITDA as compared to 9% in 1QFY06.
- Consolidated revenues and PAT registered a growth of 51% YoY and 46% YoY to Rs67.8b and Rs3.8b, respectively.
- Tata Motors also announced a 50:50 joint venture with Fiat to manufacture cars and engines to be sold in domestic as well as international markets.
- We have marginally upgraded our standalone EPS by 3.9% to Rs44.7 for FY07 and by 2.9% to Rs52.1 for FY08. The stock trades at 13.7x FY07E and 11.5x FY08E consolidated EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE										(RS MILLION)
Y/E MARCH	FY 06				FY 07E				FY 06	FY 07E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	87,492	107,472	111,228	148,155	126,154	117,300	126,300	165,141	454,345	534,895
Total Income	38,781	47,813	50,746	68,683	57,835	51,664	55,893	72,384	206,022	237,776
Change (%)	8.5	15.3	16.3	28.6	49.1	8.1	10.1	5.4	31.7	15.4
Total Cost	34,048	42,001	44,129	60,120	50,329	45,051	48,739	63,090	183,242	207,208
EBITDA	4,733	5,812	6,617	8,563	7,506	6,613	7,154	10,094	22,780	31,367
As % of Sales	12.2	12.2	13.0	12.5	13.0	12.8	12.8	13.9	11.1	13.2
Change (%)	-8.0	11.2	27.5	33.0	58.6	13.8	8.1	17.9	18.2	20.6
Non-Operating Income	583	580	41	44	859	360	75	104	1,248	1,398
Interest	510	461	601	692	726	420	380	124	2,264	1,650
Gross Profit	4,940	5,870	7,303	5,134	6,500	6,553	6,849	10,074	23,248	29,976
Depreciation & Amort.	1,267	1,272	1,308	1,363	1,411	1,500	1,575	1,830	5,209	6,316
PBT	3,600	4,540	5,918	3,243	4,986	5,053	5,274	8,330	17,300	23,644
Tax	873	1,161	1,315	1,895	1,164	1,325	1,400	2,111	5,245	6,000
Effective Tax Rate (%)	24.3	25.6	22.2	58.4	23.3	26.2	26.5	25.3	25.5	25.4
PAT	2,727	3,379	4,602	1,347	3,822	3,728	3,874	6,220	12,055	17,644
Change (%)	22.1	9.3	45.6	-65.3	40.2	10.3	42.1	84.1	23.6	46.4
Adj PAT	2,737	3,389	3,133	5,020	4,178	3,728	3,874	6,220	14,278	17,875
Change (%)	22.1	16.3	-1.2	25.9	52.7	10.0	23.7	23.9	14.6	25.2

E: MOST Estimates

Note: In the interest of timeliness, this report has not been edited

Revenues grow 49% on 44% volume growth

Tata Motors' revenues increased by 49.1% YoY in 1QFY07 to Rs57.8b on the back of 44.2% YoY volume growth and 3.4% YoY improvement in average realization. HCVs grew by 66.3%, LCVs by 63.6%, cars by 24.8% and UVs by 20.4% as compared to 1QFY06.

HCVs have witnessed robust growth on account of strong freight availability, continued impact of ban on overloading and low base effect of last year. The company outperformed the industry growth of 43.5% YoY in 1QFY07, resulting in market share improvement by 620bp to 63.9%.

LCVs continued to grow on the back of the one-ton product, *Tata Ace*. This segment has been the largest growth driver for Tata Motors and has resulted in 63.6% YoY growth in the 1QFY07. We expect *Ace* to drive further growth in FY07. As compared to an average of 2,300 units sold in 1QFY06, an average of 4,500 units of *Ace* were sold per month in 1QFY07.

Tata Motors' passenger car volume growth has been led by both domestic (a growth of 22.6% YoY) and export (a growth of 47.8%) sales. In 1QFY07, growth was boosted by new variants like *Indica Xeta* and *Turbo Diesel* (registered a growth of 32.7% YoY) to 33,173 units. The company improved market share by 40bp YoY to 20%.

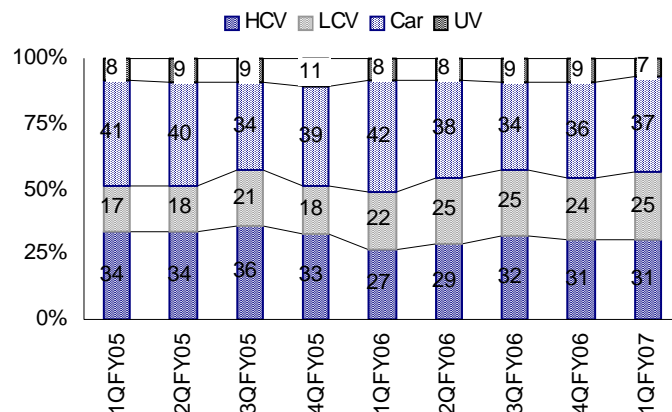
The company's utility vehicle volumes increased by 20.4% YoY. The new *Safari* range launched in the latter part of the quarter received good response. Tata Motors increased its market share by 100bp to 17.6% in 1QFY07.

QUARTERLY VOLUMES (UNITS)

	1QFY07	1QFY06	GR. %	4QFY06	GR. %
HCV	38,880	23,382	66.3	45,751	-15.0
LCV	31,997	19,563	63.6	35,028	-8.7
Car	46,354	37,140	24.8	53,620	-13.6
UV	8,923	7,411	20.4	13,756	-35.1
Total	126,154	87,496	44.2	148,155	-14.8
Domestic	113,048	78,423	44.2	135,011	-16.3
Exports	13,106	9,073	44.5	13,144	-0.3

Source: Company / Motilal Oswal Securities

TREND IN PRODUCT MIX



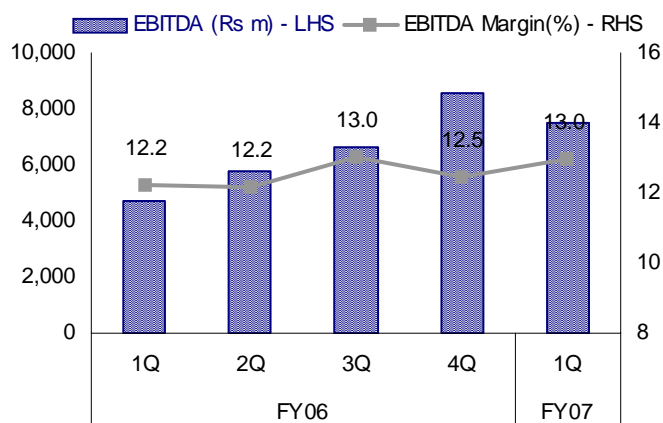
Source: Company / Motilal Oswal Securities

Better product mix drives EBITDA growth

EBITDA margins expanded to 13% from 12.2% in 1QFY06 despite input cost pressure. Our EBITDA margin calculation is adjusted for forex loss of Rs783m in 1QFY07 v/s forex gain of Rs145m in 1QFY06 and reversal of export incentive of Rs355m. The expanded margins resulted in an EBITDA of Rs7.5b, a growth of 58.6% YoY.

However, 6.5% of the EBITDA contribution is from the merged Tata Finance in 1QFY07 as compared to 9% in 1QFY06. Excluding this, the core business profit has grown by 63% in 1QFY07.

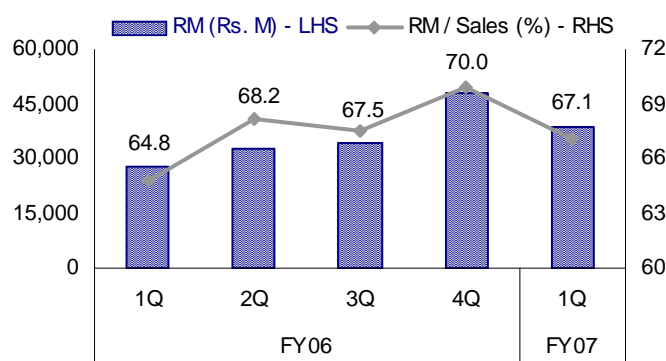
FALLING STAFF COST & OTHER EXPENDITURE OFFSET THE RM INCREASE



Source: Company / Motilal Oswal Securities

RM/sales in 1QFY07 was 67.1%, up 230bp YoY and down 290bp QoQ. The margin improvement in the quarter was led by falling staff cost to sales (5.2% v/s 7.1% in 1QFY06 and 4.6% in 4QFY06) and other expenditure to sales (14.7% v/s 15.9% in 1QFY06 and 13% in 4QFY06). The impact of RM increase was also partially offset by savings of Rs508m on account of ongoing cost reduction program.

RM/ SALES (%): INCREASED ON YOY BASIS



Source: Company/ Motilal Oswal Securities

Adjusted net profit grows 52.7% YoY

Strong EBITDA growth of 58.6%, higher other income at Rs859m v/s our expectation of Rs350m and lower effective tax rate of 23.3% v/s our expectation of 27.6% resulted in 52.7% YoY growth in adjusted PAT to Rs4.2b.

Market share has increased across segments

Tata Motors' growth rates in each of the segments in the automobile industry outperformed the industry growth rates, which resulted in improvement in market share in each segment.

REVENUE BREAK-UP (RS M)

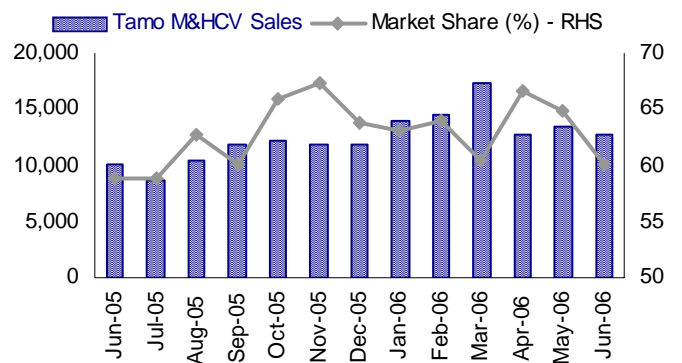
	REVENUE		PBT		PAT		PAT	
	1Q FY07	1Q FY06	1Q FY07	1Q FY06	1Q FY07	1Q FY06	FY05	FY06
Tata Daewoo CV	4,667	328	281	68	204	53	225	583
Telcon	3,701	2,577	478	157	311	97	408	408
Tata Technologies	2,270	489	19	26	10	19	77	77
HVTL	374	262	146	84	97	55	270	270
HVAL	424	271	219	116	144	78	427	427
TAL	322	144	14	(29)	14	(30)	24	24
Total	11759	4070	1156	422	780	273	1431	1789
Total Consolidated	67,709	44,931	5,366	3,591	3,802	2,559	13,853	17,281
Standalone	57,835	38,781	4,986	3,600	3,822	2,727	12,460	14,278

Source: Motilal Oswal Securities

OUTPERFORMED INDUSTRY GROWTH (%)

DOMESTIC VOLUMES	TATA MOTORS	INDUSTRY
M&HCV	59.0	43.5
LCV	86.0	39.8
Passenger cars	32.7	23.7
Utility Vehicles	14.6	7.8

COMMERCIAL VEHICLES - MARKET SHARE INCREASES 10.6%



Source: Company Motilal Oswal Securities

Joint venture with Fiat a positive development

Tata Motors has announced a 50:50 separate joint venture (apart from joint marketing venture announced earlier) to manufacture passenger cars and engines and transmissions for the domestic and international market. The joint venture would have a capacity of 100,000 cars per year and 250,000 engines and transmission per year. This is positive as Tata Motors would get access to production facility of Fiat in Latin America to manufacture UVs and pick-ups.

Subsidiary performance

Consolidated revenues and PAT registered a growth of 51% YoY and 46% YoY to Rs67.8b and Rs3.8b, respectively.

REVENUE BREAK-UP (RS M)

	FY05	FY06	FY07E	FY08E
Actual Consolidated PAT	13,853	17,281	20,431	23,699
Cons PAT incl TACO and TC	14,553	18,598	22,701	27,084
% ACP to cons PAT	95.19	92.92	90.00	87.50
Standalone PAT	12,460	14,278	17,875	20,980
Standalone PAT as a % of ACP	89.94	82.63	87.49	88.53
Standalone PAT as a % of Cons PAT (*)	85.62	76.77	78.74	77.46

Including associate companies like TACO and Tata Cummins

Source: Motilal Oswal Securities

Conference call highlights

- Tata Motors is to undertake capacity expansion of Rs100b over the next 4 years, of which over 70% will be incurred for new product introductions. Normal capex will be to the tune of Rs22b, while replacement capex will be Rs10b. Of the development capex of Rs70b, Rs22b is to be spent on CV's, while Rs50b is to be spent on passenger vehicles (including UV's).
- In a chronological order, this new product development capex is to be incurred on the PV platform for the Indica replacement, the UV platform, the small car, and a new CV. This will be interspersed with the launch of the Ace variants (including the passenger carrier version).
- Tata Motors is planning to demerge the vehicle financing division into a separate NBFC by FY07-end to enable the latter to focus exclusively on the vehicle financing business. Tata Motor Finance has rapidly inched up its market share to over 33%, from 22% in 1Q FY06, and is now the second largest four-wheeler vehicle finance company after ICICI Bank.
- With a significant amount of funds pouring into TMF, its demerger into a separate NBFC will enable Tata Motors to concentrate on its own aggressive capex plans and avoid blockage of funds due to increased lending for vehicle financing.

- However, it is likely that a part of its portfolio of vehicle financing loans will be retained by Tata Motors to enable it to take advantage of the tax benefits that were available on merger of TMF with Tata Motors.
- The company is targeting 20-25% growth in CVs for FY07, and sees buoyancy following a 25%+ rise in the freight rate, and good financial position of dealers.
- Tata Motors plans to grow aggressively in the passenger vehicles market, while possibly sacrificing margins in the short-term for the sake of a higher market share.
- Operating margins have been hit due to higher raw-material cost, particularly copper, aluminum and rubber.

Valuations attractive; maintain Buy

We have marginally upgraded our standalone earnings for FY07 by 3.9% to Rs44.7 and FY08 earnings by 2.9% to Rs52.1. Tata Motors would be the key beneficiary of the improving outlook for the CV industry. While the pick up in the CV volumes is evident, operating leverage and cost saving initiatives will offset the impact of input costs. We expect the company to benefit from the significant value creation in its subsidiaries. We value its subsidiaries at Rs181/share (applied 20% discount to actual valuation). We value the core business at 15.5x forward earnings. Our target price of Rs993 implies an upside of 36.4%.

Tata Motors: an investment profile

Company description

Tata Motors is the largest commercial vehicle manufacturer in India. Its product portfolio includes passenger and goods segment carriers across all tonnage categories. Tata Motors also manufactures passenger car vehicles and utility vehicles. An erstwhile domestically concentrated company Tamo has made serious attempts to globalise itself by acquire the Daewoo Korean CV manufacturing facility and other overseas companies.

Key investment arguments

- Rising freight rates, the Supreme Court judgment restricting overloading, strong economic growth and the government's renewed infrastructure impetus is leading to an earlier than expected reversal in the industry cycle.
- Tamo would be a key beneficiary of the improved outlook for the CV industry. We expect its CV portfolio to post a CAGR of 17% over FY06-08, driven largely by LCVs

Key investment risks

- Rising fuel prices can impact the growth in Commercial Vehicles.
- Any upward move in interest rates will affect the demand for the company's products.

COMPARATIVE VALUATIONS

		TATA MOTORS	ASHOK LEYLAND	MARUTI
P/E (x)	FY07E	16.3	16.4	21.3
	FY08E	14.0	14.1	18.1
EPS Gr (%)	FY07E	20.6	18.0	33.7
	FY08E	16.6	16.4	17.7
RoE (%)	FY07E	26.8	24.0	26.6
	FY08E	25.9	22.9	26.7
EV/EBITDA (x)	FY07E	8.2	8.3	12.5
	FY08E	6.9	6.9	10.3

SHAREHOLDING PATTERN (%)

	JUN.06	MAR.06	JUN.05
Promoters	33.6	33.7	32.4
Domestic Institutions	14.9	14.2	14.8
FII's/FDIs	39.2	40.7	39.0
Others	12.2	11.5	13.8

Recent developments

- Supreme Court has banned overloading, which has led to an upmove in the freight rates.
- Tamo has formed a JV with Fiat to distribute products jointly in India.

Valuation and view

- We are marginally upgrading our EPS estimates upwards by 3.9% in FY07 at Rs44.7 and 2.9% in FY08E to Rs52.1 to factoring the strong growth in HCV segment in 1QFY07.
- We value its subsidiaries at Rs181/share and estimate the value of its 3.9% holding in Tata Sons at Rs40.5/share (50% discount to actual calculated value). We value the company's core business at 15.5x forward earnings.
- Our revised SOTP-based target price of Rs993 implies a 36.4% upside. We upgrade the stock to **Buy**.

Sector view

- Demand related factor of IIP and agricultural production remain strong for the sector.
- The sector has benefited from the structural changes in the economy and the government focus on infrastructure.

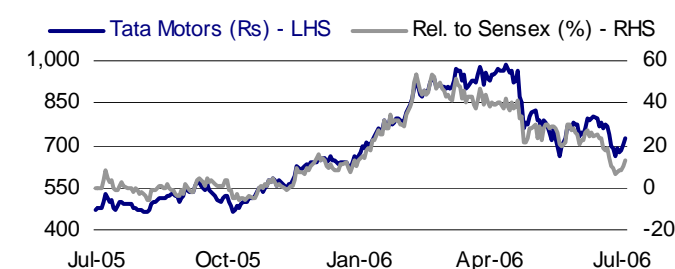
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	53.3	46.7	14.2
FY08	63.4	54.2	16.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
728	993	36.4	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E						
Total Income	132,232	174,191	206,022	237,776	270,533						
Change (%)	47.6	31.7	18.3	15.4	13.8						
Expenditure	114,863	155,304	183,242	207,208	234,926						
EBITDA	18,818	22,002	26,014	31,367	36,407						
Change (%)	87.6	16.9	18.2	20.6	16.1						
% of Net Sales	14.2	2.6	2.6	13.2	13.5						
Depreciation	3,826	4,502	5,209	6,316	7,541						
Deferred Revenue Exp.	516	671	738	800	800						
Interest & Finance Charges	1,613	1,542	2,264	1,650	1,700						
Other Income	589	1,661	1,248	1,398	1,608						
PBT	12,923	16,520	20,534	23,644	27,973						
Tax	4,820	4,150	5,245	6,000	6,993						
Effective Rate (%)	37.3	25.1	25.5	25.4	25.0						
PAT	8,103	12,370	15,289	17,644	20,980						
Change (%)	170.0	52.7	23.6	15.4	18.9						
% of Net Sales	6.3	7.2	7.6	7.4	7.8						
Adj. PAT	8,447	12,460	14,278	17,875	20,980						
Change (%)	177.8	47.5	14.6	25.2	17.4						

BALANCE SHEET						(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E						
Share Capital	3,568	3,618	3,829	4,028	4,028						
Reserves	32,367	37,496	51,542	62,745	76,929						
Net Worth	35,935	41,114	55,371	66,773	80,956						
Loans	12,598	24,954	29,368	20,000	20,000						
Capital Employed	48,533	66,068	84,739	86,773	100,956						
Gross Fixed Assets	59,854	66,120	79,716	100,727	114,727						
Less: Depreciation	30,237	34,543	44,015	50,331	57,872						
Net Fixed Assets	29,617	31,577	35,700	50,397	56,856						
Capital WIP	2,861	5,388	9,512	500	500						
Investments	30,568	29,121	20,151	20,151	20,151						
Curr.Assets	36,957	71,462	96,552	106,821	124,994						
Inventory	11,474	16,014	20,122	28,275	32,072						
Sundry Debtors	6,150	8,113	7,158	25,367	28,862						
Cash & Bank Balances	7,705	20,050	11,194	35,345	43,771						
Loans & Advances	11,628	27,224	58,077	17,833	20,290						
Current Liab. & Prov.	46,549	66,008	71,154	84,870	95,319						
Sundry Creditors	38,614	54,748	55,359	67,860	76,973						
Provisions	4,306	11,261	12,150	13,365	14,702						
Net Current Assets	-9,592	5,454	25,398	21,950	29,675						
Deferred Tax	-5,142	-5,653	-6,225	-6,225	-6,225						
Misc. Expenditures	222	182	141	0	0						
Appl. of Funds	48,534	66,068	84,677	86,773	100,956						

E: MOSI Estimates

RATIOS						(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E						
Basic (Rs)											
EPS Fully Diluted	21.8	32.2	37.0	44.7	52.1						
EPS Growth (%)	129.1	47.9	15.0	20.6	16.6						
EPS Cons.	28.6	36.1	42.9	53.3	63.4						
Cash EPS	33.4	46.6	53.5	60.4	70.8						
Book Value per Share	100.7	113.6	144.6	165.8	201.0						
DPS	7.9	12.5	13.0	15.0	15.0						
Payout (Incl. Div. Tax) %	39.3	41.7	37.1	37.8	32.4						
Valuation (x)											
P/E	33.5	22.6	19.7	16.3	14.0						
Cash P/E	21.8	15.6	13.6	12.1	10.3						
EV/EBITDA	12.5	10.9	10.7	8.2	6.9						
EV/Sales	1.8	1.4	1.4	1.1	0.9						
Price to Book Value	7.2	6.4	5.0	4.4	3.6						
Dividend Yield (%)	1.1	1.7	1.8	2.1	2.1						
Profitability Ratios (%)											
RoE	23.5	30.3	25.8	26.8	25.9						
RoCE	32.1	28.6	26.0	30.5	30.2						
Debt/Equity (x)	0.4	0.6	0.5	0.3	0.2						

CASH FLOW STATEMENT						(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E						
OP/(Loss) before Tax	13,027	16,539	20,066	24,252	28,066						
Interest/Div. Received	2,037	1,661	1,248	1,398	1,608						
Depreciation & Amort.	3,826	4,502	5,209	6,316	7,541						
Direct Taxes Paid	-732	-3,638	-4,672	-6,000	-6,993						
(Inc)/Dec in Wkg. Capital	11,204	-2,660	-28,822	27,801	701						
Other Items	4,673	-2,085	4,435	0	0						
CF from Op Activity	34,036	14,318	-2,535	53,767	30,922						
Extra-ordinary Items	-529	-139	1,483	0	0						
CF after EO Items	33,507	14,180	-1,053	53,767	30,922						
(Inc)/Dec in FA +CWIP	-3,238	-8,989	-13,457	-12,000	-14,000						
(Pur)/Sale of Invest.	-18,608	1,447	8,970	0	0						
CF from Inv Activity	-21,846	-7,542	-4,487	-12,000	-14,000						
Issue of Shares	370	50	211	199	0						
Inc/(Dec) in Debt	-1,985	12,357	4,414	-9,368	0						
Interest Paid	-1,613	-1,542	-2,264	-1,650	-1,700						
Dividends Paid	-3,183	-5,157	-5,678	-6,796	-6,796						
CF from Fin Activity	-6,411	5,708	-3,316	-17,616	-8,496						
Inc/(Dec) in Cash	5,251	12,346	-8,856	24,151	8,425						
Add: Beginning Balance	2,454	7,705	20,050	11,194	35,345						
Closing Balance	7,704	20,051	11,195	35,345	43,771						

E: MOSI Estimates

N O T E S



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	Tata Motors
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
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