

April 23, 2012

Rating	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs317	Rs368
EPS Chg FY13E (%)	4
Target Price change (%)	15
Nifty	5,291
Sensex	17,374

Price Performance

(%)	1M	3M	6M	12M
Absolute	17	45	73	26
Rel. to Nifty	16	39	69	42

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	TTMT IB
Equity Capital (Rs mn)	5,383
Face Value(Rs)	2
No of shares o/s (mn)	2,692
52 Week H/L	321/ 138
Market Cap (Rs bn/USD mn)	942/ 18,082
Daily Avg Volume (No of sh)	15,187,400
Daily Avg Turnover (US\$mn)	77.8

Shareholding Pattern (%)

	Mar12	Dec11	Sep11
Promoters	34.8	35.1	35.1
FII/NRI	43.8	41.2	40.4
Institutions	13.0	14.8	15.4
Private Corp	0.4	0.5	0.5
Public	8.0	8.4	8.6

Source: Bloomberg

Chirag Shah

chirag.shah@emkayglobal.com
+91-22-66121252

Siddhartha Bera

siddhartha.bera@emkayglobal.com
+91-22-66242494

- Demand for Evoque continues to remain strong with an order backlog of ~3 months. XF, 2.2L is finding strong response in UK. New XJ continues to enjoy strong demand in China
- Capacity to reach to 400,000 units by 2H which can be further augmented by 10% with limited investments
- Range rover (2HFY12)/Range Rover sports (CY13) based on new premium lightweight architecture and XF sportsbrake (1QCY13) are the major launches in CY12 and CY13
- Upgrade FY13 vols./Sales/EBIDTA by 6%/4%/10%. Higher tax/depreciation restricts PAT upgrade to 4%. Introduce FY14 estimates with a EPS of Rs 56.8. Retain ACCUMULATE

We met the management of Tata Motors. Key extracts are as follows

Evoque – Demand continues to remain strong

Current order backlog stand at ~3 months. Currently demand continues for top end of the model. Over the life cycle, expect the share of lower end version to increase. This will put pressure on average realizations. XF 2.2 ltr is getting strong response in UK. The newly introduced XJ in China continues to see strong demand.

Capacity – Capacity can be augmented upto 450,000 units with limited capex

Current capacity stands at ~375,000 units. JLR has recently increased capacity by 25,000 units at its Halewood plant (total capacity of 175,000 units). Another 25,000 units of capacity will be available at Solihull plant at the time of launch of new Range Rover (based on premium lightweight architecture). This will take total capacity at 400,000 units. There is further scope to increase capacity by another 10%. The total capex required would be ~GBP 200 mn. Thereafter company would have to incur higher capex to augment capacity. The idea is bring back plants to work on two shift basis as compared to current three shift operations.

Current Engine technologies – three different sources

Current engines that are sourced from Ford are based on three different technologies especially for 4 cylinder engines – JLR's own technology, Ford's technology and Ford-PSA's technology. The new engine capacity that company plans to invest in is primarily for meeting demand for smaller engines, including the smaller Jaguar that is stated for launch in 2014. The new plant will have the capacity to manufacture ~300,000 engines in phased manner. Expected investment in this is ~GBP 355 mn

JLR - New product launches

Apart from upgrades/variants, two major product lined up are new Range Rover (based on premium lightweight architecture) in 2HCY12 and XF sportsbrake in 1QCY13. Also F-type is expected in early CY13. New Range rover sports (based on premium lightweight architecture) will be launched by end CY13

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net	EBITDA		EPS	EPS	RoE		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY11A	1,209,580	166,941	13.6	89,192	27.0	729.6	64.7	11.7	7.4	5.5
FY12E	1,628,815	217,594	13.2	123,516	37.4	38.5	50.7	8.5	5.4	3.5
FY13E	2,016,162	300,576	14.7	172,824	52.4	39.9	46.7	6.1	3.9	2.4
FY14E	2,230,102	336,614	14.9	187,450	56.8	8.5	35.7	5.6	3.4	1.7

Volume growth outlook for premium cars/UVs

Expect global premium car industry to report a growth of ~4% to 6% for CY13. Thus CY13 to witness growth rates in line with long term averages. Highest growth is expected in Japan (~15% to 17%) due to low base. Europe is expected to report a decline of 5% to 6%. Growth in China is also expected to be around 12%, while US can grow by 8%.

Revision in FY13 estimates and introduction of FY14 estimates

We are raising our total volumes estimates for FY13 by 5.8% to 1.4m units to factor change in product mix in India business, strong volumes for Evoque and higher capacity addition. We upgrade our Net sales/EBITDA by 4%/10% in FY13 largely due to JLR. However, higher tax rates and depreciation restricts PAT growth by 4%, our EPS is revised upward by only 4%. We also introduce FY14 estimates. We factor in vol. growth of 9% in JLR and 10% in domestic M&HCV goods segment in FY14. We expect margins to expand 20 bps YoY largely led by improved performance in standalone business. However, higher depreciation charge in JLR and higher tax rates leads to 8.5% YoY growth in earnings.

Rs mn	FY13E			FY14E	
	Earlier	Revised	%Change	Estimates	%YoY
M&HCVs	258,876	236,141	-8.8	258,565	9.5
LCVs	314,833	347,097	10.2	394,969	13.8
Cars	186,579	198,923	6.6	211,329	6.2
Nano	78,884	108,146	37.1	129,394	19.6
UVs	117,869	126,936	7.7	141,275	11.3
JLR	371,215	387,751	4.5	423,839	9.3
Total	1,328,258	1,404,992	5.8	1,559,371	11.0
Sales	1,965,627	2,041,965	3.9	2,259,373	10.6
EBIDTA	273,682	300,576	9.8	336,614	12.0
EBIDTA margins (%)	13.9	14.7		14.9	
Net Profits	166,452	172,824	3.8	187,450	8.5
DEPS	50.4	52.4	3.8	56.8	8.5

Source: Company, Emkay Research

Upgrading 4QFY12 estimates due to better than expected volumes

We are also upgrading our 4QFY12 estimates by due to better than estimated March 2012 JLR volume run rate. Thus, our net sales stand revised upwards by 1.9% and net profits by 6.6%.

Rs mn	Q4FY12E		
	Earlier	Revised	%Change
Standalone units	236,329	236,329	-
JLR units	95,229	98,051	3.0
Total volumes	331,558	334,380	0.9
Sales	505,325	515,075	1.9
EBIDTA	74,342	77,880	4.8
EBIDTA margins (%)	14.7	15.1	
Net Profits	40,556	43,251	6.6
DEPS	12.3	13.1	6.6

Source: Company, Emkay Research

Valuations

At CMP of Rs 317, the stock trades at FY13E/14E EV/EBITDA of 3.8x/3.3x and PER of 5.5x/5x. We value the company on SOTP basis and roll forward our valuation multiples on FY14 est. Thus, we attribute EV/EBITDA of 3.2x for JLR and 6.3x to standalone business (10% discount on FY13 multiples). We have upgraded our target by 16% to Rs 368. We retain our ACCUMULATE rating.

Valuation Summary

	FY13E	FY14E
Volumes		
M&HCVs	236,141	258,565
LCVs	347,097	394,969
Cars	198,923	211,329
Nano	108,146	129,394
UVs	126,936	141,275
JLR	387,751	423,839
Total	1,404,992	1,559,371
Sales		
TML	602,083	680,093
JLR	1,372,276	1,504,589
Others (ex TMFSL)	53,724	58,485
Total	2,028,083	2,243,167
EBIDTA		
TML	41,637	50,993
JLR	243,697	268,517
Others (ex TMFSL)	8,268	9,075
Total	293,603	328,585
Target multiple		
TML	7.0	6.3
JLR	3.5	3.2
Others (ex TMFSL)	6.3	5.7
Target EV		
TML	291,462	321,253
JLR	852,939	845,828
Others	52,090	51,456
Total	1,196,491	1,218,537
Less: Net Debt (ex TMFSL)	40,982	12,787
Target MC	1,155,510	1,205,750
Share capital nos mn)	3,300	3,300
Value per share	350	365
Less MI	5	5
Add:TMFSL	8	8
Net Value per share	353	368

Key Financials (Consolidated)

Income statement

Y/E Jan (Rsmn)	FY11A	FY12E	FY13E	FY14E
Net Sales	1,230,719	1,650,649	2,041,965	2,259,373
Growth (%)	33.2	34.1	23.7	10.6
Expenditure	1,063,778	1,433,055	1,741,388	1,922,759
Materials Consumed	790,084	1,059,113	1,279,791	1,404,347
Employee Cost	93,427	106,876	124,543	142,072
Other Exp	180,268	267,066	337,054	376,339
EBITDA	166,941	217,594	300,576	336,614
Growth (%)	125.0	30.3	38.1	12.0
EBITDA margin (%)	13.6	13.2	14.7	14.9
Depreciation	46,555	56,935	72,980	89,760
EBIT	120,386	160,659	227,597	246,854
EBIT margin (%)	9.8	9.7	11.1	10.9
Other Income	896	2,693	2,702	2,760
Interest expenses	20,454	23,454	25,114	25,426
PBT	100,827	139,898	205,185	224,188
Tax	12,164	16,383	32,362	36,737
Effective tax rate (%)	12.1	11.7	15.8	16.4
Adjusted PAT	88,664	123,516	172,824	187,450
Growth (%)	768.5	39.3	39.9	8.5
Net Margin (%)	7.2	7.5	8.5	8.3
(Profit)/loss from JVs/Ass/MI	(528)	-	-	-
Adjusted PAT After JVs/Ass/MI	89,192	123,516	172,824	187,450
E/O items	3,544	(2,969)	-	-
Reported PAT	92,736	120,547	172,824	187,450
PAT after MI	93,265	120,547	172,824	187,450
Growth (%)	512.9	30.0	43.4	8.5

Cash Flow

Y/E Jan (Rsmn)	FY11A	FY12E	FY13E	FY14E
PBT (Ex-Other income)	99,931	137,205	202,483	221,428
Depreciation	46,555	56,935	72,980	89,760
Interest Provided	20,454	23,454	25,114	25,426
Other Non-Cash items	(31,999)	(2,969)	-	-
Chg in working cap	(10,377)	38,242	(31,179)	(14,537)
Tax paid	(12,164)	(16,383)	(32,362)	(36,737)
Operating Cashflow	112,402	236,484	237,036	285,339
Capital expenditure	(104,339)	(143,324)	(169,187)	(208,250)
Free Cash Flow	8,063	93,160	67,848	77,089
Other income	896	2,693	2,702	2,760
Investments	32,786	804	-	-
Investing Cashflow	(70,657)	(139,826)	(166,485)	(205,490)
Equity Capital Raised	33,777	-	-	-
Loans Taken / (Repaid)	14,916	(30,000)	(30,000)	(30,000)
Interest Paid	(20,454)	(23,454)	(25,114)	(25,426)
Dividend paid (incl tax)	(74,358)	(16,867)	(24,181)	(26,228)
Income from investments	-	-	-	-
Others	-	223	-	-
Financing Cashflow	(46,120)	(70,098)	(79,295)	(81,655)
Net chg in cash	(4,375)	26,559	(8,745)	(1,805)
Opening cash position	87,433	109,479	136,039	127,294
Closing cash position	83,058	136,039	127,294	125,488

Balance Sheet

Y/E Jan (Rsmn)	FY11A	FY12E	FY13E	FY14E
Equity share capital	6,377	6,600	6,600	6,600
Reserves & surplus	185,338	289,017	437,659	598,882
Net worth	191,715	295,617	444,260	605,482
Minority Interest	2,466	2,466	2,466	2,466
Secured Loans	199,271	189,271	179,271	169,271
Unsecured Loans	128,643	108,643	88,643	68,643
Loan Funds	327,914	297,914	267,914	237,914
Net deferred tax liability	14,638	14,638	14,638	14,638
Total Liabilities	536,733	610,635	729,278	860,500
Gross Block	750,477	893,801	1,062,988	1,271,238
Less: Depreciation	396,987	453,922	526,901	616,661
Net block	353,491	439,879	536,087	654,577
Capital work in progress	117,289	117,289	117,289	117,289
Investment	25,443	24,639	24,639	24,639
Current Assets	510,349	609,835	740,750	821,386
Inventories	140,705	181,804	246,003	271,253
Sundry debtors	68,774	76,090	106,293	127,518
Cash & bank balance	109,479	136,039	127,294	125,488
Loans & advances	191,372	215,896	261,155	297,121
Other current assets	19	6	6	6
Current lia & Prov	469,838	581,006	689,487	757,391
Current liabilities	371,147	443,695	520,103	570,613
Provisions	98,692	137,311	169,384	186,778
Net current assets	40,511	28,829	51,263	63,995
Misc. exp				
Total Assets	536,733	610,635	729,277	860,500

Key Ratios

Y/E Jan	FY11A	FY12E	FY13E	FY14E
Profitability (%)				
EBITDA Margin	13.6	13.2	14.7	14.9
Net Margin	7.2	7.5	8.5	8.3
ROCE	24.6	28.5	34.4	31.4
ROE	64.7	50.7	46.7	35.7
RoIC	44.3	52.1	57.4	46.9
Per Share Data (Rs)				
EPS	27.0	37.4	52.4	56.8
CEPS	41.1	54.7	74.5	84.0
BVPS	58.1	89.6	134.6	183.5
DPS	20.0	4.5	6.5	7.1
Valuations (x)				
PER	11.7	8.5	6.1	5.6
P/CEPS	7.7	5.8	4.3	3.8
P/BV	5.5	3.5	2.4	1.7
EV / Sales	1.0	0.7	0.6	0.5
EV / EBITDA	7.4	5.4	3.9	3.4
Dividend Yield (%)	6.3	1.4	2.1	2.2
Gearing Ratio (x)				
Net Debt/ Equity	1.0	0.5	0.3	0.2
Net Debt/EBITDA	1.2	0.7	0.4	0.3
Working Cap Cycle (days)	(47.9)	(41.1)	(30.0)	(27.8)

Recommendation History: Tata Motors – TTMT IN

Date	Reports	Reco	CMP	Target
14/02/2012	Tata Motors Q3FY12 Conso Result Update	Accumulate	268	310
15/11/2011	Tata Motors Q2FY12 Conso Result Update	Buy	178	220
07/09/2011	Auto Sector Report Cruising through barriers			
11/08/2011	Tata Motors Q1FY12 Conso Result Update	Buy	846	1,230

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/03/2012	Automobile Sector Update			
01/03/2012	Mahindra and Mahindra Company Update	Hold	682	740
13/02/2012	Motherson Sumi Q3FY12 Result Update	Accumulate	174	210
13/02/2012	Eicher Motors Q4CY11 Result Update	Hold	1,705	1,915

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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