

Tata Motors

BUY

YTFDY13 JLR sales up 21% yoy

CMP: Rs272

Target Price: Rs332

Wholesale volume up 7% yoy in October 2012

Tata Motors' JLR sales (wholesale) for October 2012 were lower than estimated at 27,897 units, up 7% yoy (up 5% mom). Land Rover sales of 24,558 units — up 17% yoy (up 4% mom) — partially offset the impact of decline of 37% yoy (up 19% mom) in Jaguar sales to 3,339 units on overall sales.

October sales up 7% yoy and 5% mom

	Oct 12	Oct 11	yoy (%)	Sept 12	mom (%)	YTFDY13	YTFDY12	yoy
JLR	27,897	26,158	6.6	26,461	5.4	188,791	156,243	20.8
Jaguar	3,339	5,231	(36.2)	2,808	18.9	24,945	29,875	(16.5)
LR	24,558	20,927	17.4	23,653	3.8	163,846	126,368	29.7

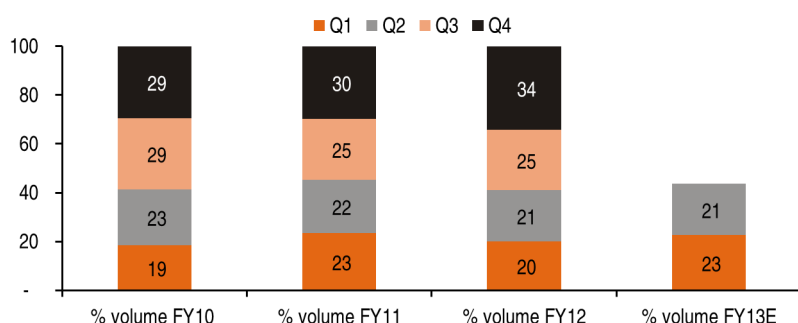
Source: Company, BRICS Research

JLR: Jaguar Land Rover

LR: Land Rover

Monthly volume in line with expectation: Over the last three years, average sales in Q3 have contributed ~27% of JLR's annual volume, as against ~31% in Q4. Based on this trend as a guideline, JLR's monthly sales can be estimated to be ~31,500 units in Q3. JLR's sales for October 2012 improved mom, but were lower than the estimated run-rate for the quarter.

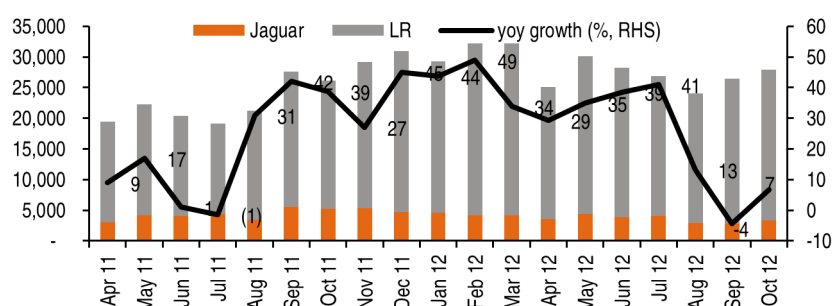
JLR's monthly run-rate slows down - seasonal



Source: BRICS Research

YTFDY13, JLR reported a growth of 21% yoy in sales to 188,791 units — Jaguar's sales were down 17% yoy to 24,945 units, while Land Rover sales grew 30% yoy to 163,846 units.

Monthly volume trend



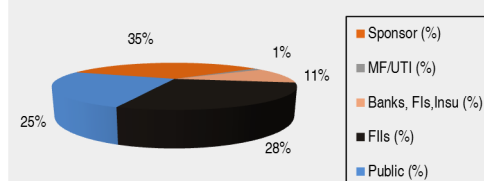
Source: Company, BRICS Research

KEY DATA

Bloomberg	TTMT IN
Reuters	TAMO.BO
52-week high/low (Rs)	321/160
6-m avg. traded value	US\$55.3mn
Market cap	Rs805.0bn/US\$14.7bn
Shares outstanding	2,665.1mn
Face value (Rs)	Rs2

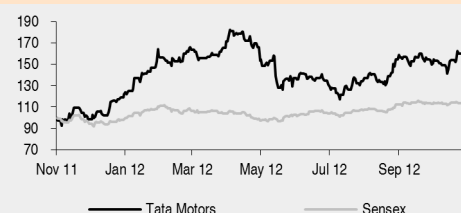
Source: Bloomberg

SHAREHOLDING (%)



Source: Ace equity

PRICE PERFORMANCE



Source: Bloomberg

Umesh Karne

+91 22 66360050

umesh.karne@bricssecurities.com

Manashwi Banerjee

+91 22 66360080

manashwi.banerjee@bricssecurities.com

Maintenance shutdown and model change impact sales

JLR's US sales down 20% yoy

In the US market, passenger vehicle sales grew 13% yoy, but declined 9% mom, while luxury car sales grew 14% yoy. The growth in the passenger car segment has been attributed to low interest rates, increase in sales of pick-up trucks, new models and pent-up demand. Toyota and Honda Motor led overall sales, as they benefited from the increased demand for compact cars (gasoline prices remained high).

JLR was the only luxury car-maker in the US - other than Volvo - to record a decline in sales. Jaguar sales fell 23% yoy, while Land Rover sales were down 20% yoy.

Exhibit 1: JLR's US sales decline as against growth in industry sales

US	Oct 12	Oct 11	yoy (%)	Sept 12	mom (%)	YTDCY12	YTDCY11	yoy (%)
Jaguar	699	909.0	(23.1)	1,004	(30.4)	10,249	9,293	10.3
Land Rover	3,129	3,886.0	(19.5)	3,636	(13.9)	34,803	27,267	27.6
Jaguar Land Rover	3,828	4,795	(20.2)	4,640	(17.5)	45,052	36,559	23.2
Total luxury car	116,925	102,518	14.1	114,422	2.2	1,113,589	870,306	28.0
Total passenger vehicle	544,291	481,850	13.0	600,956	(9.4)	7,824,829	5,912,653	32.3

Source: BRICS Research

UK – JLR posts slower than average growth in luxury cars

In the UK market, passenger car sales for October 2012 rose 12.1% yoy to 151,252 units, while volumes for the first 10 months of 2012 increased 5.0%, or 83,823 units, to 1,771,861 units. The demand for small cars has grown rapidly, partly due to new models – volume was up 52% YTD in the Mini segment and 5.8% YTD in the Supermini segment. Together, these two segments account for close to 40% of the market.

Luxury car sales grew 19% yoy in October 2012 to 61,012 units. JLR's growth was slower than the average growth, up 15% yoy to 4,310 units. Jaguar sales grew 19% yoy in October 2012, while Land Rover sales were up merely 14% yoy.

Exhibit 2: JLR's UK sales decline sharply mom in October 2012 due to plate change & maintenance shut down

UK	Oct 12	Oct 11	yoy (%)	Sep 12	mom (%)	YTDCY12	YTDCY11	yoy (%)
Jaguar	845	713	18.5	2,962	(71.5)	11,984	11,116	7.8
Land Rover	3,465	3,044	13.8	8,745	(60.4)	42,312	29,122	45.3
Jaguar Land Rover	4,310	3,757	14.7	11,707	(63.2)	54,296	40,237	34.9
Total luxury car	61,012	51,171	19.2	138,506	(55.9)	696,720	599,688	16.2
Total passenger vehicle	151,252	134,944	12.1	359,612	(57.9)	1,771,861	1,559,175	13.6

Source: BRICS Research

Russia – JLR's sales growth slows down to 22% yoy

After recording a growth of 50%+ yoy for five consecutive months, JLR's sales growth in Russia slowed down to 22% yoy. The overall passenger car market slowed down in Russia, with sales up 5% yoy, but down 2% mom – despite reduced consumer appetite in the other segments. Retail auto registrations remained higher than the prior year's levels, supported by robust order banks generated in the first half of the year and an increase in market incentives provided in recent weeks. However, the current new order intake is lower in comparison to the year ago level and will impact sales performance in the coming months.

The growth in luxury cars was slower than the growth in overall passenger cars – up 2.6% yoy, but down 5% mom to ~50,000 units. Jaguar reported its first yoy decline in Russia in this financial year (starting April 2012), down 37% yoy to 80 units. Land Rover posted a growth of 30% yoy to 1,406 units.

Exhibit 3: Jaguar reports first decline in Russia in FY13

Russia	Oct 12	Oct 11	yoy (%)	Sep 12	mom (%)	YTDCY12	YTDCY11	yoy (%)
Jaguar	80	126	(36.5)	147	(45.6)	1,248	887	40.7
Land Rover	1406	1087	29.3	1,661	(15.4)	15,735	10,159	54.9
Jaguar Land Rover	1,486	1,213	22.5	1,808	(17.8)	16,983	11,046	53.7
Luxury Car sales	49,484	48,227	2.6	52,086	(5.0)	476,234	347,787	36.9
Total	253,732	240,928	5.3	259,582	(2.3)	2,441,663	2,162,720	12.9

Source: BRICS Research

Valuation

We believe JLR's performance will continue to drive Tata Motors' stock, as it contributes 75% of the company's total revenue and ~90% of profit. We value the standalone business at Rs54 per share, 12x our FY14 core earnings estimate, and value JLR at 7x FY14 earnings (after adjusting for capitalisation for product development) at Rs319 per share. We assign a discount of 20% to investments and subsidiaries (Rs278 per share) to arrive at our SOTP-based target price of Rs332 per share. Maintain Buy.

Exhibit 4: SOTP value of Tata Motors

Particulars	Basis of valuation	Rs/share
Tata Motors (A)	12x FY14E	54
Value Assigned to other subsidiaries & Investments(B)	20% discount	278
Tata Daewoo	10x FY14E	1
TML Drivelines	10x FY14E	2
Tata Technologies	10x FY14E	8
Tata Motors Finance	10x FY14E	7
Other Investments	Market Value/ Book Value	10
JLR	7x FY14E	319
Total (A+B)		332

Source: BRICS Research

Financial summary

Income statement					Balance sheet				
(Rs mn)					(Rs mn)				
Y/E 31 March	2011	2012E	2013E	2014E	Y/E 31 March	2011	2012E	2013E	2014E
Revenue	1,231,333	1,656,545	1,830,992	2,039,231	Net fixed assets	434,931	515,677	630,172	702,522
Revenue growth (%)	34.0	34.5	10.5	11.4	Investments	25,443	50,443	62,443	74,443
Operating exp	1,063,158	1,433,432	1,601,165	1,779,310	Current assets	510,349	609,985	666,291	785,133
EBITDA	168,175	223,112	229,827	259,921	Inventories	140,705	191,568	211,198	235,598
EBITDA margin (%)	13.7	13.5	12.6	12.7	Sundry debtors	68,774	75,248	101,233	111,894
Depreciation	46,555	56,254	63,505	67,650	Cash & bank balance	109,479	85,466	67,850	119,379
EBIT	121,620	166,859	166,322	192,271	Loans & advances	117,316	157,829	174,449	194,289
MTM profit / (loss)	—	—	—	—	Other current assets	74,075	99,874	111,560	123,972
Other income	896	6,618	3,400	5,117	Total assets	1,006,571	1,211,953	1,394,754	1,597,946
Interest paid	20,454	29,822	17,877	15,789	Net worth	191,715	328,499	459,910	609,794
PBT	102,062	143,654	151,846	181,599	Share capital	6,377	6,377	6,377	6,377
Tax	12,164	(400)	13,165	24,445	Reserves & surplus	185,338	322,122	453,532	603,417
PAT	89,898	144,055	138,680	157,155	Minority interest	2,466	2,696	2,496	2,276
Minority interest	(528)	574	(500)	(550)	Total debt	327,914	277,914	247,914	217,914
EO income	(2,310)	8,315	—	—	Secured loans	195,014	195,014	195,014	195,014
APAT	92,208	135,739	138,680	157,155	Unsecured loans	132,900	82,900	52,900	22,900
PAT growth (%)	223.8	60.2	(3.7)	13.3	Current liabilities & prov	469,838	588,206	669,797	753,324
Shares o/s (mn)	2,665	2,665	2,665	2,665	Current liabilities	371,147	581,337	649,361	721,609
Fully diluted o/s shrs (mn)	2,665	2,665	2,665	2,665	Provisions	98,692	6,869	20,435	31,715
FDEPS (Rs) recurring	29.1	42.4	43.6	49.5	Net deferred tax liab	14,638	14,638	14,638	14,638
					Total liabilities	1,006,571	1,211,953	1,394,754	1,597,946
Cash flow statement					Key ratios				
(Rs mn)									
Y/E 31 March	2011	2012E	2013E	2014E	Y/E 31 March	2011	2012E	2013E	2014E
PBT	102,062	143,654	151,846	181,599	Valuation ratios				
Depreciation	46,555	56,254	63,505	67,650	PE (x)	9.4	6.4	6.2	5.5
Amortisation	—	—	—	—	CEPS (Rs)	51.2	75.2	75.9	84.4
Interest paid	20,454	29,822	17,877	15,789	PCE (x)	5.3	3.6	3.6	3.2
Tax paid	—	—	—	—	BVPS (Rs)	301	515	721	956
Chg in working capital	(20,377)	94,593	19,355	28,626	Price/Book (x)	0.9	0.5	0.4	0.3
Int/div in other income	—	—	—	—	EV/EBITDA (x)	6.0	4.4	4.3	3.4
Other operations	—	—	—	—	EV/Revenue (x)	0.8	0.6	0.5	0.4
CF from operations (a)	136,530	324,723	239,418	269,220	Dividend yield (%)	1.1	1.1	1.1	1.1
Capital expenditure	(62,194)	(137,000)	(178,000)	(140,000)	Cash flow yield (%)	10.2	25.9	8.5	17.8
Chg in investments	(3,251)	(25,000)	(12,000)	(12,000)	Performance ratios				
Other investing act	—	—	—	—	Raw material to sales (%)	71.5	66.7	66.4	66.5
Int/div in other income	—	—	—	—	SGA to sales (%)	—	—	—	—
CF from investments (b)	(65,446)	(162,000)	(190,000)	(152,000)	Effective tax rate (%)	11.9	(0.3)	8.7	13.5
Free cash flow (a+b)	74,336	187,723	61,418	129,220	PAT margin (%)	7.3	8.7	7.6	7.7
Equity raised/(repaid)	51,671	—	—	—	DPS (Rs)	3.0	3.0	3.0	3.0
Debt raised/(repaid)	(25,921)	(50,000)	(30,000)	(30,000)	Dividend payout ratio (%)	10	7	7	6
Interest paid	(20,454)	(29,822)	(17,877)	(15,789)	Return ratios				
Dividend (incl tax)	(14,540)	(7,270)	(7,270)	(7,270)	RoE avg (%)	67.4	52.2	35.2	29.4
Other fin activities	(70,248)	(90,754)	(12,387)	(13,182)	RoCE avg (%)	23.3	27.4	23.4	23.2
CF from financing (c)	(79,492)	(177,847)	(67,534)	(66,241)	Fixed asset turnover (x)	1.7	2.0	1.9	1.8
Net chg in cash (a+b+c)	(8,407)	(15,123)	(18,116)	50,979	Working capital ratios				
Opening balance	87,433	109,479	85,466	67,850	Inventory (days)	58	63	63	63
Closing balance	109,479	85,466	67,850	119,379	Payable (days)	110	128	129	129
					Receivable (days)	20	17	20	20
					Working capital (days)	(31)	(48)	(46)	(46)
					Leverage ratios				
					Interest cost (%)	6.0	9.8	6.8	6.8
					Net debt/equity (x)	1.1	0.6	0.4	0.2
					Interest coverage (x)	5.9	5.6	9.3	12.2

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside up to 15% (between 0% and -15%)
SELL:	More than 15% downside

Head Office: Sadhana House, 1st Floor, 570, P. B. Marg, Behind Mahindra Tower,
Worli, Mumbai - 400 018. Tel: (91-22) 6636 0000

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