

BUY

TARGET	INR360.00
CLOSE	INR300.70
UP/DOWNSIDE	+19.7%

HOW WE DIFFER FROM THE STREET

	BNPP	Consensus	% Diff
Target Price (INR)	360.00	300.00	20.0
EPS 2013 (INR)	47.08	38.95	20.9
EPS 2014 (INR)	54.40	42.68	27.5
	Positive	Neutral	Negative
Market Recs	39	13	4

INDUSTRY OUTLOOK ↑

A challenger emerges

 **CHANGE**

Initiate at BUY with 20% upside potential

Tata Motor's sales and profitability have increased nearly five-fold since its acquisition of Jaguar Land Rover (JLR) in 2008. High-brand equity and the planned near doubling of investment commitment in JLR to GBP1.5b per year over the next five years should help Tata Motors sustain double-digit volume growth as well as earnings growth over FY12-14E.

 **CATALYST**

Innovation and margins to support growth momentum

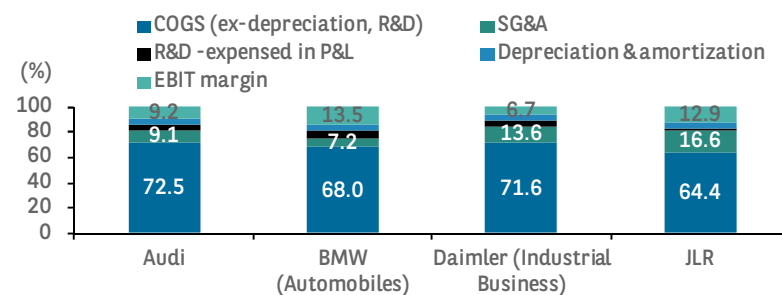
The company plans to launch over 40 models/variants in the next five years, which we believe will help diversify growth momentum that is currently largely dependent on the Range Rover Evoque model. EBITDA margins should also remain above average (16-17%) to FY14, supported by new launches, high volume growth and better capacity utilisation.

VALUATION
 SoTP-based TP of INR360.00, with JLR valued at 3x EV/EBITDA

Although Tata Motors shares have rallied sharply YTD in line with other cyclical stocks, we anticipate further re-rating on improving free cash flow and return on capital. Our 3x target FY14E adjusted EV/EBITDA for the JLR business is at a premium to peers in the luxury-car segment to reflect the prospects of market-share gains and higher earnings growth.

KEY CHART

Margin profile of JLR vs global peers



Sources: Companies' data; BNP Paribas

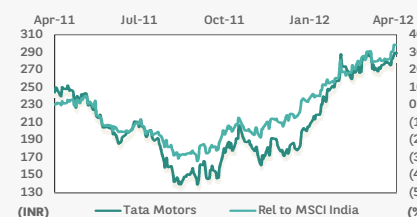


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KEY STOCK DATA

YE Mar (INR m)	2012E	2013E	2014E
Revenue	1,657,308	1,947,889	2,189,192
Rec. net profit	118,461	156,401	180,724
Recurring EPS (INR)	35.66	47.08	54.40
EPS growth (%)	23.5	32.0	15.6
Recurring P/E (x)	8.4	6.4	5.5
Dividend yield (%)	1.2	1.3	1.3
EV/EBITDA (x)	4.7	3.7	3.0
Price/book (x)	3.3	2.3	1.6
Net debt/Equity (%)	67.3	30.9	4.6
ROE (%)	48.3	42.2	34.4



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	4.9	40.7	21.7
Relative to country (%)	6.8	33.4	33.2
Next results	May 2012		
Mkt cap (USD m)	19,470		
3m avg daily turnover (USD m)	79.1		
Free float (%)	65		
Major shareholder	Tata Sons and other promoters (35%)		
12m high/low (INR)	290.45/139.60		
3m historic vol. (%)	34.4		
ADR ticker	TTM US		
ADR closing price (USD; 13 Apr 2012)	27.92		
Issued shares (m)	3,322		

Sources: Bloomberg consensus; BNP Paribas estimates

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Please see India Research Team list on page 18.

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RISK EXPERTS • Macro

BUY

TATA MOTORS TTMT IN

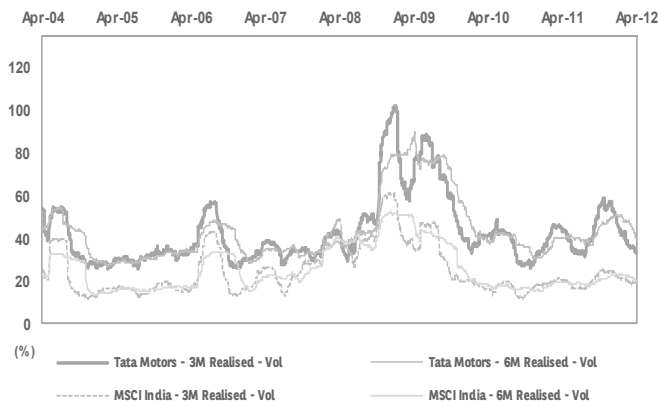
Key Earnings Drivers & Sensitivity

- 100bp higher margin in JLR would increase consolidated EPS by 8-9% for FY13 and FY14, in our estimation.
- For 5% change in JLR's volume, consolidated EPS would change 12% for FY13 and FY14, in our estimation.

	--- Base case ---		--- Bull case ---		--- Bear case ---	
Year-end 31 Mar	2013E	2014E	2013E	2014E	2013E	2014E
JLR EBITDA margin (%)	19.0	19.5	20.0	20.5	18.0	18.5
Consolidated EPS (INR)	47	54	51	59	43	50
JLR volumes (units)	366,987	407,838	385,337	428,230	348,638	387,446
Consolidated EPS (INR)	47	54	53	61	41	48

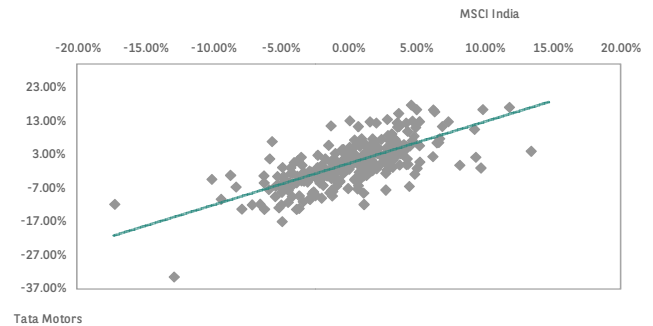
Source: BNP Paribas estimates

Tata Motors and MXIN Index (3M and 6M Realised-Vol)



Sources: Bloomberg; BNP Paribas

Regression - Tata Motors to MXIN Index



$$\text{Tata Motors} = -113 + 0.4016 * \text{MXIN Index}$$

R Square = 0.5021

Regression based on 260 observations of 5 years weekly data. Please refer to Appendix 1 for the explanation of R-square

Sources: Bloomberg; BNP Paribas

India Sector Correlation Matrix at 30 December 2011

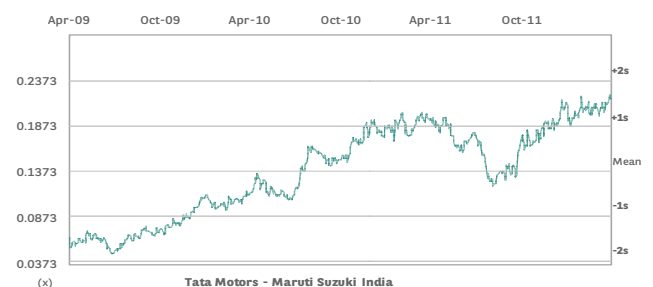
India	Autos	Banks	Engineering & Construction	Metals & Mining	Oil & Gas	IT Services	Telecom	Utilities	Property
Autos	1.00	0.66	0.61	0.62	0.51	0.43	0.36	0.56	0.58
Banks		1.00	0.71	0.72	0.59	0.53	0.41	0.62	0.70
Engineering & Construction			1.00	0.69	0.56	0.48	0.41	0.63	0.68
Metals & Mining				1.00	0.66	0.55	0.42	0.65	0.74
Oil & Gas					1.00	0.50	0.36	0.59	0.59
IT Services						1.00	0.29	0.46	0.43
Telecom							1.00	0.45	0.42
Utilities								1.00	0.65
Property									1.00

Source: BNPP Paribas Sector Strategy

The Risk Experts

- Our starting point for this page is a recognition of the macro factors that can have a significant impact on stock-price performance, sometimes independently of bottom-up factors.
- With our Risk Expert page, we identify the key macro risks that can impact stock performance.
- This analysis enhances the fundamental work laid out in the rest of this report, giving investors yet another resource to use in their decision-making process.

Long/Short Chart



Sources: Bloomberg; BNP Paribas

Sources: Bloomberg; BNP Paribas

Investment summary

The turnaround of JLR by Tata Motors, to some extent aided by the improved market conditions, has been fairly satisfactory. Management has set higher targets for JLR as evidenced by its investment commitment of nearly GBP1.5b per year over the next five years. The investment commitment represents nearly 11% of FY12E sales and is in line with those of other luxury majors such as Audi (NSU GY, Not rated) and BMW (BMW GY, Not rated). We believe Tata Motors's planned investment would help widen the product portfolio, support double-digit volume growth, and keep margins at above-average levels. Although the stock has rallied significantly in line with other cyclical and luxury-car makers since November 2011, we continue to find valuations attractive. In our opinion, the innovation momentum and margin trends at JLR should continue to surprise positively for FY13-14. The domestic business continues to face economic challenges, but Tata Motors's competitive positioning in the commercial vehicle (CV) business should ensure steady growth.

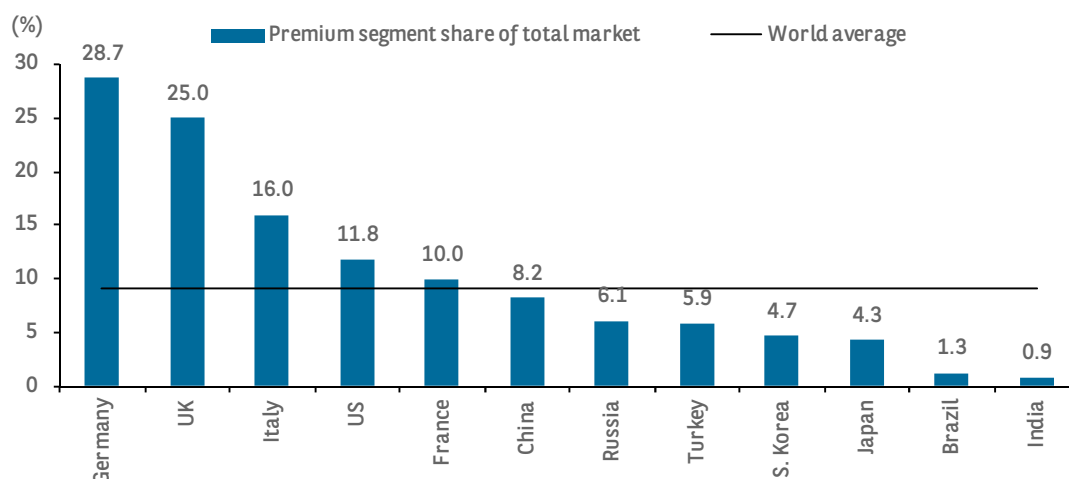
We initiate coverage on Tata Motors with a SoTP-based target price of INR360.00, implying upside potential of 20% from current levels. To derive our target price, we value the JLR business on a target FY14E adjusted EV/EBITDA of 3x and the domestic operations at a target 7x FY14E EV/EBITDA. Our target multiple for JLR represents a premium to other luxury companies to reflect JLR's significantly stronger growth momentum and implies a consolidated P/E of 8x, which is in line with Tata Motor's historical trading average.

Investment thesis

Innovation to keep incremental market-share growth in double digits

After underperforming the luxury car market growth until 2009, JLR's volumes have since improved significantly under the new management of Tata Motors. JLR plans to sustain this momentum by launching 40 models/variants, which includes 2-3 major launches over the next five years. The innovation plan is backed by an investment commitment of GBP1.5b pa over the next five years, and the company has recruited over 3,000 people for this ambitious agenda. We believe the planned investment is adequate and will help JLR leverage the structural opportunity in the global luxury car market, where we estimate volume growth will be nearly 50% higher than that in the mid- and mass-car segments. The share of the premium vehicle segment in China, which is among the fastest growing luxury-car markets in the world, is around 8%. We believe the share could double over the next 3-4 years on the back of aspirational demand, faster innovation and local manufacturing content. US is another geography where JLR plans to increase its focus, especially after its portfolio revamp there. JLR has undertaken several distribution and marketing initiatives in these key geographies, and we expect this should generate good results.

EXHIBIT 1: Premium segment share of total market



Sources: BMW; BNP Paribas

EXHIBIT 2: Global luxury vehicles industry

	2006	2007	2008	2009	2010	2011	2012E
Global sales volume forecast ('000 units)	77,836	76,847	68,120	65,040	73,283	75,188	79,410
Growth (y-y %)		(1.3)	(11.4)	(4.5)	12.7	2.6	5.6
Global sales by top European luxury vehicle OEMs* ('000 units)	2,542	2,753	3,921	3,500	4,065	4,636	5,006
Growth (y-y %)		8.3	42.4	(10.7)	16.2	14.0	8.0
Proportion of luxury vehicles (%)	3.3	3.6	5.8	5.4	5.5	6.2	6.3
JLR sales volume ('000 units)	263	289	209	170	234	283	354
Growth (y-y %)		9.7	(27.7)	(18.7)	38.3	20.5	25.4
JLR share of luxury vehicles (%)	10.3	10.5	5.3	4.8	5.8	6.1	7.1

Note: Luxury vehicles include sales of BMW, Mercedes-Benz, Audi and JLR
Sources: Companies' data; BNP Paribas estimates

JLR's Land Rover portfolio enjoys high brand equity, which has been strengthened further by the success of the Range Rover Evoque. On the Land Rover platform, we expect the company to launch new Range Rover Sport and Defender. The Jaguar platform, which has underperformed the Land Rover in terms of volume growth, also has a very strong product line-up. The Jaguar scores high on appeal as per various customer surveys but loses out in terms of vehicle quality and reliability. The planned model launches include Mini Jaguar, Hybrid C-X75, Jaguar XF Sportbrake and Jaguar XE. Overall, we expect JLR to achieve volume growth of 14% over FY12-14 on a high volume base of 314,433 vehicles. In the past two years, the company's incremental market share has been in double digits, which we believe can be sustained despite stiff competition from the German luxury vehicle OEMs.

EXHIBIT 3: JD Power Vehicle Ownership Satisfaction Survey UK, 2011

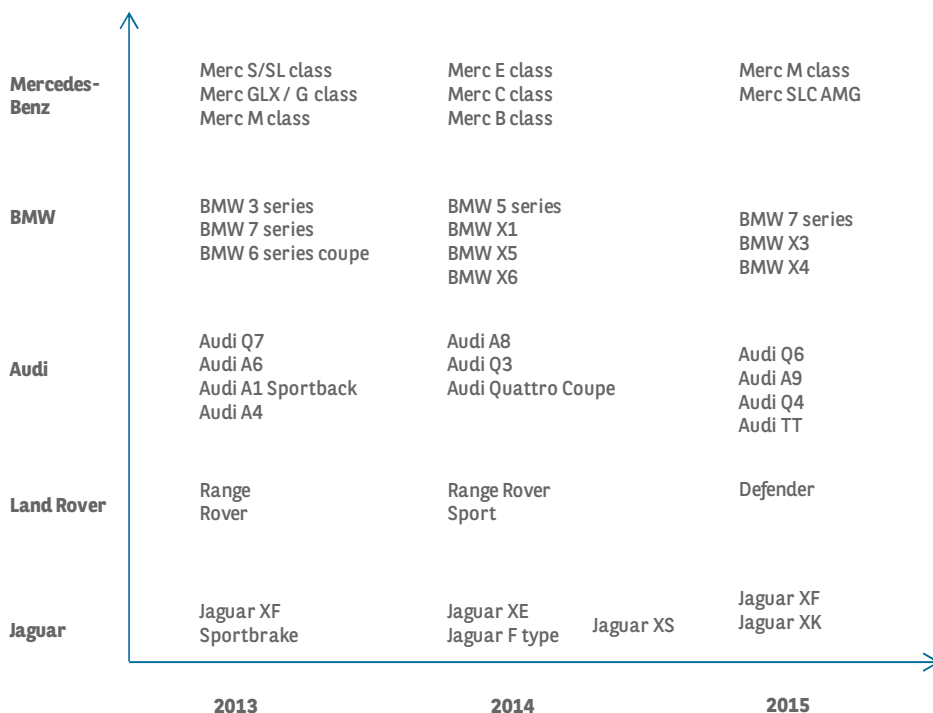
The results

EXCELLENT ★★★★★ ABOVE AVERAGE ★★★★ AVERAGE ★★★ BELOW AVERAGE ★★ POOR ★

	Vehicle quality & reliability			Vehicle appeal			Ownership experience		Results	
	Mechanical reliability	Interior quality	Exterior quality	Vehicle performance	Vehicle interior	Vehicle exterior	Dealer service	Running costs	Overall (%)	Overall Rating
1- BMW 5 Series	★★★★★	★★	★★★	★★★	★★	★★★	★★	★★★★★	83.3%	★★★★★
1- MERCEDES-BENZ E-Class	★★★★★	★★★★★	★★★★★	★★★★★	★★★	★★★★★	★★★★★	★★★★★	83.3%	★★★★★
3 JAGUAR XF	★★	★★★★★	★★	★★★★★	★★★★★	★★★★★	★★★★★	★★	82.3%	★★★
4 AUDI A6, RS5, S6, Allroad	★★★	★★★	★★★★★	★★	★★	★★	★★	★★★	81.7%	★★
5 VOLVO V70	★★	★★★★★	★★★★★	★★	★★	★★	★★	★★	79.8%	★★

Source: JD Power

EXHIBIT 4: Product launch roadmap of global major luxury vehicle brands



Sources: Companies data; industry sources; BNP Paribas estimates

EXHIBIT 5: Sales composition of global major luxury vehicle brands

BMW	2011 (%)	Audi	2011 (%)	Mercedes-Benz	2011 (%)	JLR	9M CY11 (%)
3 series	28	A4 Sedan	16	C-Class	30	Range over Sport	19
5 series (incl GT)	24	A6 Sedan	14	E-Class	25	Freelander	16
1 series	13	Q5	14	SUV	18	Discovery	15
X1	9	A3 Sportback	11	A- / B-Class	14	Range Rover Evoque	15
X3	9	A1	9	smart	7	XF	11
X5	8	A4 Avant	8	S-Class	6	Range Rover	10
7 series	5	Q7	4			Defender	7
X6	3	A5 Sportback	4			XJ	5
Z4	1	A6 Avant	3			XK	2
6 series	1	Others	17				

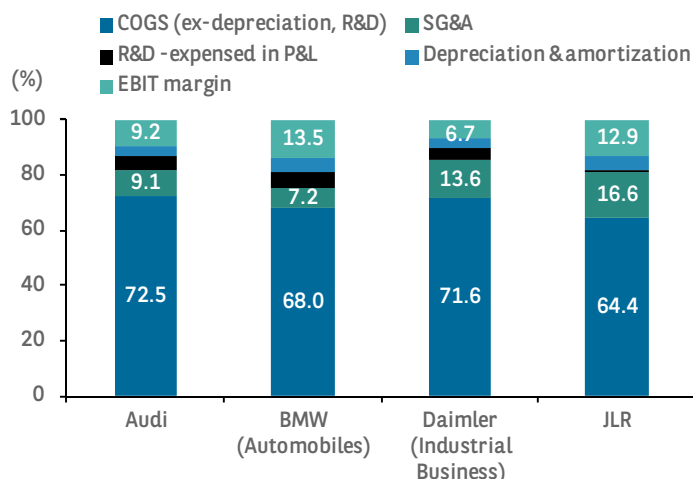
Sources: Companies' data; BNP Paribas

Margins for luxury vehicle manufacturers likely to come in at the higher end of the guidance range

JLR and other luxury car manufacturers saw double-digit improvements in margins in 2010, which expanded further in 2011. We expect the momentum to be sustained in 2012 as most luxury car manufacturers continue to enjoy healthy growth in most geographies except Europe. In addition, JLR is rationalizing its production platforms, which can generate significant synergies. Currently, the company produces nine products from nine platforms. Over the next three years, JLR plans to reduce the number of platforms to six, but increase the number of key products to 14. The Premium Lightweight Architecture (PLA) of JLR will help it service new consumer segments, reduce vehicle weight and keep gross margins at high levels, in our opinion.

We expect margins for most luxury vehicle manufacturers to remain at the top end of their guidance range. There have recently been press reports that discounts on luxury cars have increased significantly in China. We think the concerns are somewhat exaggerated as the discounts have largely been for the old inventory (BMW 3 series) and for the 5 series and the 7 series (BMW 3 series wheelbase is same as that of BMW 5 series). For JLR, we anticipate EBIT margin gains of 170bps over FY12-14. JLR's EBIT margins are lower than those of BMW but higher than those of Audi and Daimler (DAI GY, Not rated). JLR has the best gross margin profile among peers, and we believe could be sustained with the rationalization of platforms. Thus, we forecast further 120bp EBITDA margin gain for FY12-14, implying an increase of GBP1,100 per vehicle, which does not seem a tall ask.

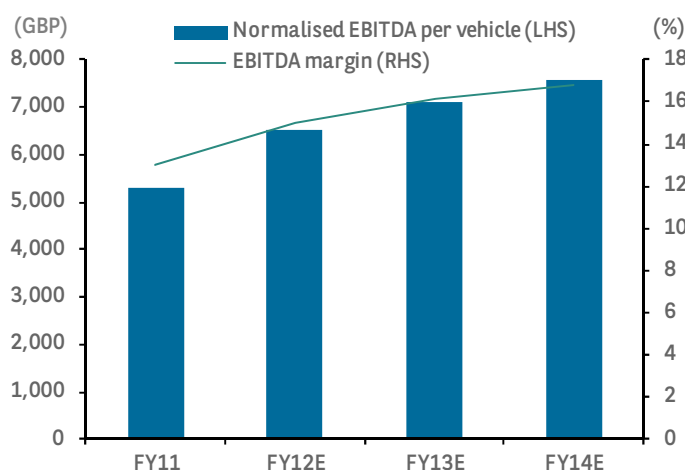
EXHIBIT 6: Margin structure comparison of JLR vs global peers, 2011



Note: JLR margin structure is estimated for FY12.

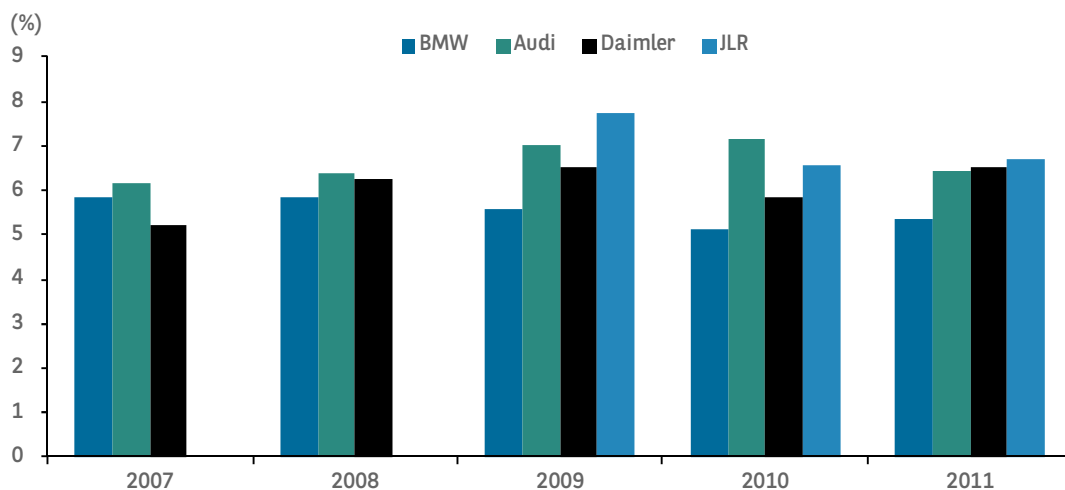
Sources: Companies' data; BNP Paribas

EXHIBIT 7: JLR's EBITDA margin to improve further



Sources: Tata Motors; BNP Paribas estimates

EXHIBIT 8: R&D expenditure as a percentage of sales



Note: R&D expenditure of BMW is for the group level and of Daimler is for the Mercedes-Benz car division
Sources: Companies' data; BNP Paribas estimates

Strong position in the China market

Recently, there have been concerns expressed about growth momentum and high discounts in the China market for luxury vehicles. In our opinion, the concerns are exaggerated and the China luxury market should continue to show robust growth. According to our China autos team (Jack Yeung and Alex Yang), price cuts in the case of BMW are restricted to the 3 series and the X1 models. For the 3 series, there is a model change whereas the X1 is now produced locally. Discounts in the 5 series and the 7 series have also increased as the wheelbase of the new 3 series is the same as the existing 5 series. The Daimler portfolio usually has relatively high discounts, and the current discounts on the S-class are in response to those on the BMW 5 series and the 7 series. Overall, the discounts are restricted to a few models only and the companies believe that it will remain so in the future as well. For JLR, several of its products, including the Freelander and the Range Rover Sport, enjoy premium prices. The waiting period for the Range Rover Evoque remains high, at 1-2 months, despite the significant increase in production.

JLR's recent announcement to establish a strong manufacturing presence in China through a JV with Chery Auto (state-owned) would be a significant positive in the long term, in our view. Over the next 3-4 years, we expect JLR's annual volumes in China to cross the 100,000 mark – a critical mass for establishing local presence. We believe the increased local production will generate substantial cost savings (from lower import duties, freight, etc) for JLR and could be earnings accretive to the extent of 7-10%.

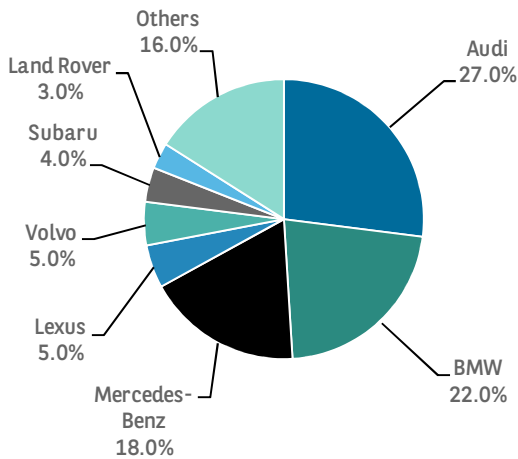
EXHIBIT 9: JLR models pricing trend in China

Brand	Model	Original price (RMB '000)	Retail price* (RMB '000)	Price premium (RMB '000)	Price premium (%)	Waiting list (months)
Land Rover	Freelander 2 SD4 Auto SE 2011	498	508	10	2	2-3
	Freelander 2 I6 Auto HSE 2011	658	678	20	3	3-4
	Range Rover 5.0L V8 SC 2011	2,188	2,288	100	5	4-6
	Range Rover 5.0L V8 SC Ultimate 2011	2,738	2,878	140	5	4-6
	Range Rover Sport 5.0L V8 NA HSE 2011	1,418	1,478	60	4	3-4
	Range Rover Sport 5.0L V8 Autobiography 2011	1,798	1,858	60	3	3-4
Land Rover	Discovery 4 4.0L V6 2011	858	828	30	3	1-2
	Discovery 4 5.0L V8 HSE 2011	1,188	1,158	30	3	1-2
	Range Rover Evoque 2.0T 3doors 2011	638	618	20	3	1-2
	Range Rover Evoque 2.0T 5doors 2011	628	608	20	3	1-2
	Jaguar XJ 2012 5.0L Delux	2,068	2,018	50	2	1-2
	Jaguar XJ 2012 5.0L Flagship Delux	2,548	2,498	50	2	1-2
	Jaguar XF 2012 3.0AT Delux	698	628	70	10	1-2
	Jaguar XFR 2009 5.0AT	1,880	1,780	100	5	1-2

* As of March 2012

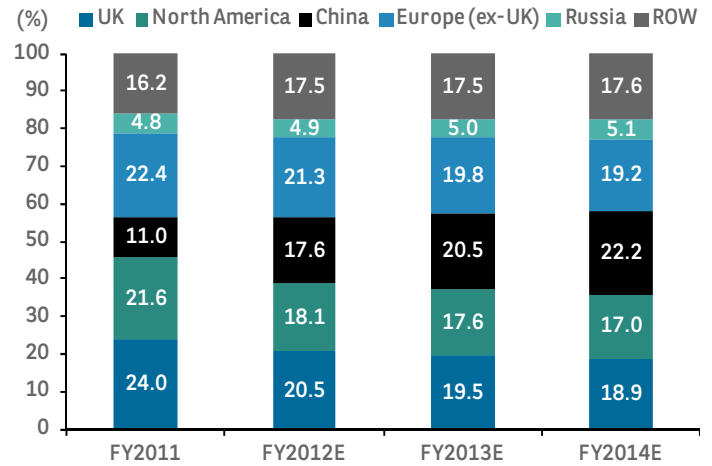
Source: Channel checks; Company data

EXHIBIT 10: Market share of luxury vehicles in China, 2011E



Sources: Companies' data; BNP Paribas estimates

EXHIBIT 11: Composition of JLR sales volumes

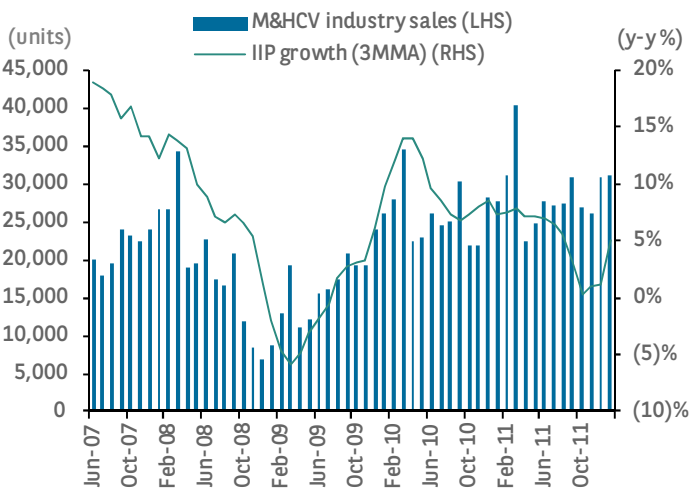


Sources: Tata Motors; BNP Paribas estimates

Domestic operations: CV demand to stay positive despite headwinds

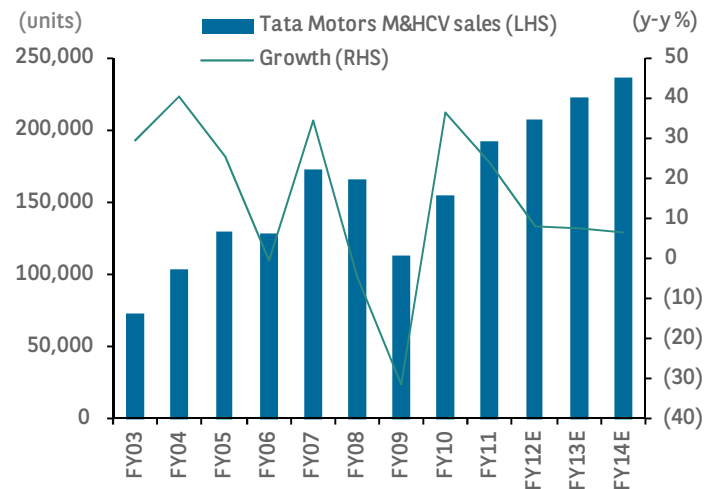
Tata Motor's market share and profitability of the domestic car portfolio continues to decline, and valuations of its domestic business hinge primarily on the performance of the commercial vehicle (CV) business, especially M&HCV. For the CV industry, some of the leading indicators such as freight and utilization rates are still reasonably healthy. Although core industries (steel) and overall IIP have to show meaningful improvement, some of the other drivers such as imports and agriculture growth remain fairly healthy. Overall, we expect the CV industry to achieve volume growth of 6-8% over FY13-14E, supported by GDP multiplier of 1.2x and replacement demand. Tata Motors's CV portfolio continues to find significant favour with most manufacturers and this competitive positioning should show help sustain steady volume growth.

EXHIBIT 12: M&HCV Industry sales trend vs IIP growth



Sources: SIAM; Bloomberg; BNP Paribas

EXHIBIT 13: Tata Motors M&HCV sales trend



Sources: Tata Motors; BNP Paribas estimates

EXHIBIT 14: Average monthly trunk rentals (for round trip)

Route (9-tonne pay load)	FY11 (INR)	FY12 (INR)	Change (%)	Mar-Apr 2012 (INR)
Delhi-Mumbai-Delhi	51,158	56,598	10.6	59,740
Delhi-Nagpur-Delhi	49,058	54,806	11.7	57,989
Delhi-Kolkata-Delhi	50,359	57,809	14.8	61,800
Delhi-Guwahati-Delhi	90,541	102,154	12.8	109,675
Delhi-Hyderabad-Delhi	66,975	76,625	14.4	81,500
Delhi-Chennai-Delhi	79,858	89,242	11.8	95,500
Delhi-Bangalore-Delhi	77,950	87,417	12.1	93,900
Delhi-Ranchi-Delhi	49,933	56,308	12.8	60,800
Delhi-Raipur-Delhi	48,759	54,392	11.6	58,000
Delhi-Kandla-Delhi	35,400	41,867	18.3	45,600
Delhi-Bilaspur-Delhi	47,433	54,017	13.9	57,600

Sources: IFTRT; BNP Paribas

Financials

Double-digit volume growth for JLR should be sustained

JLR's strong performance has helped Tata Motors deliver volume growth of 27% over FY10-12E. We remain positive on the prospects of the luxury-car business, which should help sustain overall growth momentum at Tata Motors. We project JLR's volume CAGR at 14% over FY12-14, led by a healthy innovation pipeline and growth in key markets such as China and the US. We expect Land Rover volume growth to exceed that of the Jaguar by at least 50%. On an aggregate basis, we believe China volume growth will be double the average from all other geographies and that the US volume growth should accelerate further, while the European markets may see some decline.

EXHIBIT 15: JLR volume assumptions

Year-end 31 Mar	2012E	2013E	2014E	Growth (y-y %)		
	(units)	(units)	(units)	2012E	2013E	2014E
JLR						
UK	64,615	71,609	76,891	10	11	7
North America	57,027	64,681	69,438	9	13	7
China	55,245	75,170	90,614	105	36	21
Europe (ex Russia, UK)	67,000	72,845	78,145	23	9	7
Russia	15,406	18,298	20,814	31	19	14
ROW	55,140	64,385	71,935	40	17	12
Total	314,433	366,987	407,838	29	17	11

Source: BNP Paribas estimates

Domestic operations profitability should improve on margin gains

For the domestic business, we expect Tata Motors to continue to deliver high-single-digit volume growth, led by the healthy performance of its LCV segment. Volume growth for the M&HCV business, which is critical to growth and profitability of the domestic operations, should remain positive as India's industrial growth is showing signs of improvement, agriculture production is increasing, and international trade activity is still strong. We expect steady growth and benign raw material cost environment to support margin expansion of about 100bp over FY12-14.

EXHIBIT 16: Standalone business assumptions summary

Year-end 31 Mar	2012E	2013E	2014E	Growth (y-y %)		
	(units)	(units)	(units)	2012E	2013E	2014E
Standalone						
M&HCV	207,014	218,554	236,106	7.7	5.6	8.0
LCV	266,164	306,485	346,381	30.9	15.1	13.0
PVs (ex-Nano)	313,783	322,277	330,145	3.3	2.7	2.4
Nano	74,527	96,000	108,000	5.8	28.8	12.5
Revenue (INR m)	548,749	608,493	674,975	14.2	10.9	10.9
EBITDA (INR m)	40,085	48,754	57,659	(16.0)	21.6	18.3
EBITDA margin (%)	7.3	8.0	8.5	(260bp)	70bp	50bp

Source: BNP Paribas estimates

Capex to be funded by internal accruals

Although significant commitment towards expanding the JLR business is needed, we believe this funding can largely be met through internal accruals. Tata Motors's working-capital requirement remains fairly low, so the improved profitability should help fund most of the planned investment of about GBP1.5b pa. We estimate overall capex as a percentage of sales at 8-9%, while free cashflow yield should improve from single digits to double digits.

EXHIBIT 17: Capex and FCF trends

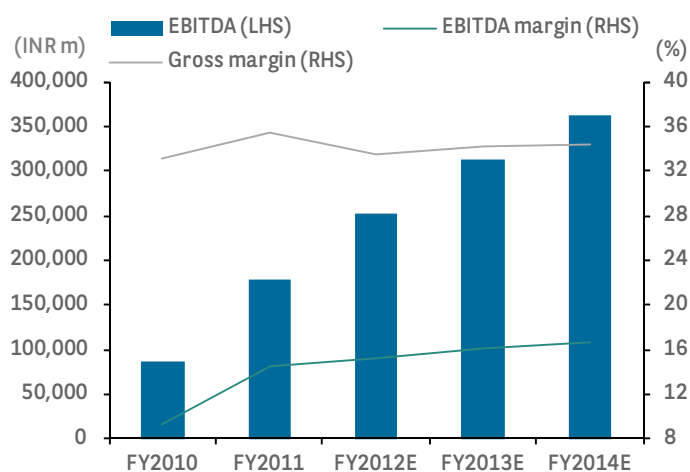
Year-end 31 Mar (INR m)	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Recurring net profit	13,853	17,281	21,700	21,677	(21,660)	11,636	90,426	118,461	156,401	180,724
Depreciation	6,011	6,951	7,731	8,480	28,545	43,853	56,180	70,810	86,541	101,377
Associates & minorities	(314)	(266)	392	(1,316)	(2,130)	(13,867)	(1,486)	803	645	696
Other non-cash items	(304)	183	1,107	339	(10,112)	7,883	(10,938)	(2,434)	0	0
Recurring cash flow	19,247	24,149	30,930	29,181	(5,356)	49,506	134,182	187,640	243,587	282,797
Changes in working capital	(5,628)	(23,440)	(41,370)	20,422	(13,450)	26,009	(40,484)	37,437	4,393	11,014
Capital expenditure (new investment)	(8,740)	(12,592)	(27,588)	(52,804)	(99,708)	(84,754)	(81,240)	(199,544)	(168,802)	(169,205)
Free cash flow to equity	4,879	(11,883)	(38,027)	(3,201)	(118,514)	(9,240)	12,458	25,533	79,179	124,606
Capex as % of sales (%)	4.5	5.3	8.5	14.8	14.2	9.2	6.6	12.0	8.7	7.7
FCF yield (%)	0.8	(2.0)	(6.2)	(0.5)	(17.4)	(1.4)	1.3	2.6	7.9	12.5

Sources: Tata Motors; BNP Paribas estimates

ROCE to remain steady despite significant investments

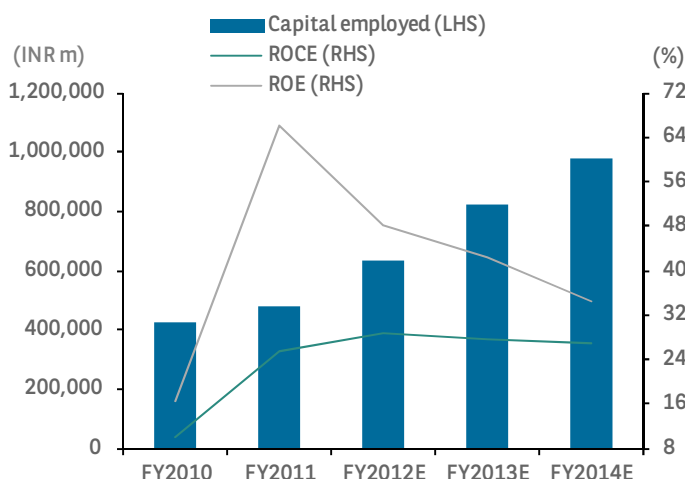
On a consolidated basis, we believe Tata Motors's margins will continue to expand on the back of the JLR business. We think the concerns about volume and pricing trends in China, which is the fastest growing market for the company, are exaggerated. We estimate gross margins will remain above 34% and EBITDA margins above 15% over FY12-14. We expect ROCE to remain healthy on strong profitability but ROE to fall on account of the decline in leverage.

EXHIBIT 18: Tata Motors's margin trend



Sources: Tata Motors; BNP Paribas estimates

EXHIBIT 19: ROCE to remain steady despite significant investments



Sources: Tata Motors; BNP Paribas estimates

Significant upside potential to consensus estimates

We see potential for earnings upgrades to consensus numbers for Tata Motors as volume momentum (plants running nearly three shifts) remains strong and as margins are likely to remain above average (16-17%). In our opinion, consensus numbers do not adequately factor in the increased production and high margins for JLR.

EXHIBIT 20: BNP Paribas estimates vs consensus estimates

Year-end 31 Mar	Sales		EBITDA		Net profit	
	2013E	2014E	2013E	2014E	2013E	2014E
	(INR m)	(INR m)	(INR m)	(INR m)	(INR m)	(INR m)
BNP Paribas estimates	1,947,889	2,189,192	314,023	362,639	156,401	180,724
Consensus estimates	1,832,426	2,033,502	251,912	283,987	127,719	139,951
Difference (%)	6.3	7.7	24.7	27.7	22.5	29.1

Sources: Bloomberg consensus; BNP Paribas estimates

Valuation

Tata Motors shares have rallied sharply in tandem with other global cyclicals, supported by healthy demand and margin trends in the luxury-car business. Tata Motors shares have outperformed almost all peers in the past 3-6 months but lagged peers (both domestic and international markets) on a 12-month timeline. We expect the stock to get fresh impetus from the earnings announcement (which is likely to surprise on the upside) in May 2012 and from signs of sustained steady growth for JLR.

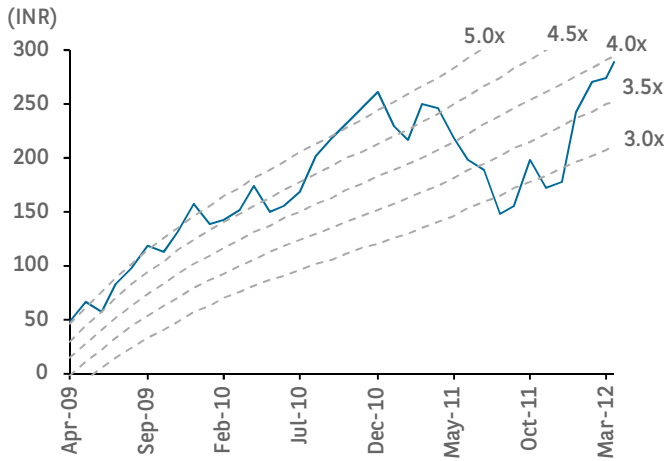
EXHIBIT 21: Stock price performance

Company	----- Relative price performance -----					----- Absolute price performance -----				
	1-wk	1-mth	3-mth	6-mth	1-yr	1-wk	1-mth	3-mth	6-mth	1-yr
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Domestic automobile companies										
Bajaj Auto	2.7	(4.2)	8.3	2.1	35.1	0.4	(8.4)	11.0	3.3	21.9
Hero Motocorp	4.6	9.2	8.4	2.5	36.6	2.2	4.9	11.9	1.4	31.1
Maruti Suzuki	2.8	0.7	27.9	23.5	19.2	0.5	(1.9)	32.0	20.9	6.8
Tata Motors	6.2	6.5	30.9	62.5	33.5	3.9	0.7	38.8	58.3	19.7
M&M	1.4	9.7	(5.6)	(14.5)	9.5	(0.9)	4.8	1.4	(13.9)	(0.5)
Ashok Leyland	(4.1)	6.9	11.2	17.9	22.2	(6.2)	3.3	21.5	19.3	12.1
Global automobile companies										
BMW	3.4	0.5	6.8	9.6	26.6	2.2	(3.4)	15.6	25.0	23.8
Daimler	(7.5)	(10.5)	(1.2)	(2.8)	(14.2)	(3.9)	(7.9)	15.0	16.0	(9.8)
Volkswagen	2.5	(2.8)	(4.9)	3.6	22.7	1.3	(7.2)	3.7	17.2	18.5
Fiat	1.5	(1.7)	6.1	(6.0)	(5.7)	(2.3)	(11.3)	5.1	(15.8)	(34.7)
Peugeot	(4.0)	(12.1)	(15.8)	(35.2)	(48.2)	(6.5)	(12.2)	(12.2)	(35.1)	(55.1)
Renault	1.5	(4.1)	21.5	37.2	20.6	(1.0)	(10.2)	24.6	36.9	(0.3)
Ford	(2.7)	(4.4)	(6.9)	(7.7)	(23.7)	(3.2)	(2.9)	(0.2)	6.5	(18.7)
General Motors	(2.5)	(6.2)	(7.1)	(8.9)	(25.4)	(2.1)	(4.3)	(1.5)	3.8	(22.0)
Toyota	(0.7)	0.9	13.6	19.0	4.8	(1.9)	(2.2)	28.3	29.0	3.5
Honda	(1.6)	(2.2)	3.2	18.2	2.4	(2.8)	(5.0)	19.2	29.1	4.7
Nissan	(2.4)	1.7	8.3	5.9	19.3	(3.6)	(0.4)	25.5	16.2	22.4
Suzuki	(0.9)	(0.5)	5.7	6.2	9.1	(2.1)	(2.1)	22.8	16.4	8.3
Mazda	(0.2)	9.2	(5.1)	(21.8)	(21.2)	(1.4)	(0.7)	3.9	(14.7)	(23.1)
Hyundai	(1.3)	16.4	5.9	10.4	28.2	(2.3)	20.0	12.6	25.6	30.3
Kia	(1.9)	8.5	7.0	1.9	13.0	(2.8)	7.5	13.0	11.7	11.2

Source: Bloomberg

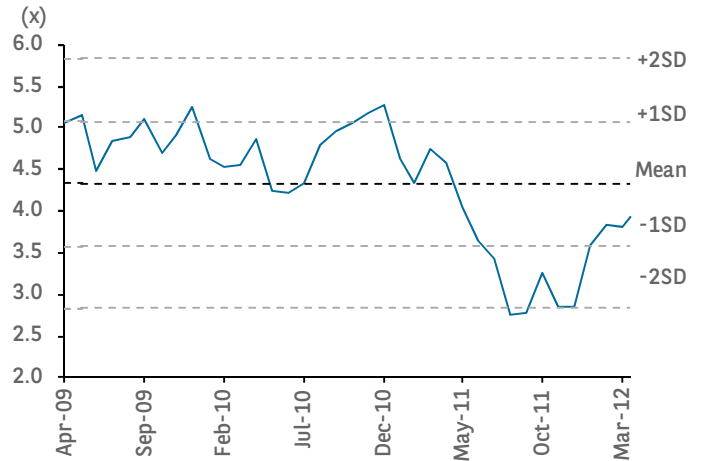
Tata Motors tends to trade at a significant discount to peers, due to the cyclical nature of its business and significant capex commitment. Tata Motors traded in the EV/EBITDA band of 4.5-5.0x after the JLR acquisition in 2008, but the stock was derated sharply in July 2011 due to the Euro crisis. However, the luxury-market trends have proven to be resilient and the stock has staged a smart comeback since November 2011 to trade at its median level.

EXHIBIT 22: Forward EV/EBITDA band chart



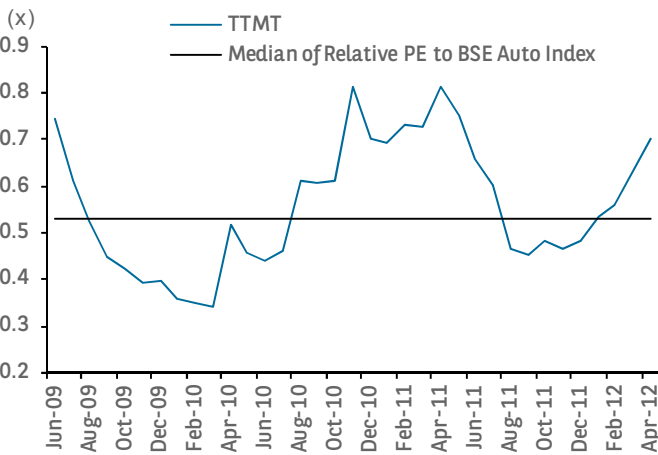
Sources: Tata Motors; Bloomberg; BNP Paribas estimates

EXHIBIT 23: Forward EV/EBITDA range



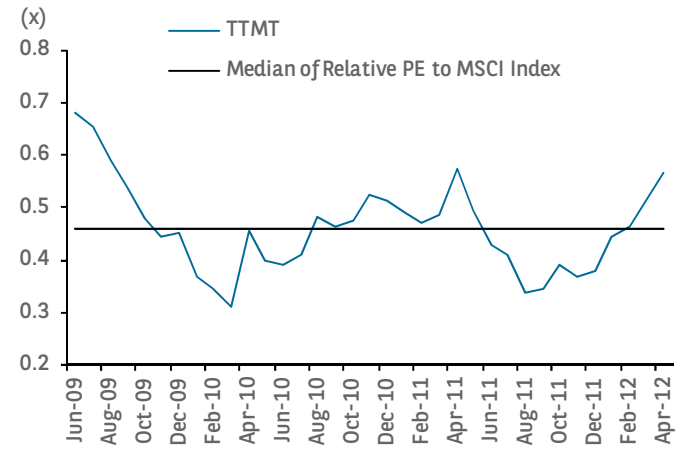
Sources: Tata Motors; Bloomberg; BNP Paribas estimates

EXHIBIT 24: Tata Motors P/E discount to BSE Auto Index



Sources: Tata Motors; Bloomberg; BNP Paribas estimates

EXHIBIT 25: Tata Motors P/E discount to MSCI Index



Sources: Tata Motors; Bloomberg; BNP Paribas estimates

Tata Motors tends to be benchmarked against international peers

The bulk of Tata Motors's profitability comes from its international business, thus its valuations are usually compared to global peers such as Daimler and BMW. The stock trades at a marginal premium to international peers, reflecting its better margin and earnings growth profile (Exhibit 27). Tata Motors is among the cheapest auto stocks compared to its Indian peers (Exhibit 26).

Tata Motors is trading at FY13E EV/EBIDTA of 4x, which we find attractive as volume growth and margins are likely to remain strong. We recommend BUY with a target price of INR360.00, using FY14E target EV/EBIDTA multiples of 3x for the international business and 7x for the domestic business. Our target multiples are consistent with Tata Motors's historical trading average, with those of its peers (both international and domestic) and with its growth prospects.

EXHIBIT 26: Domestic automobile companies' valuation comparison

Company	Share price (LC)	Market cap (USD m)	P/E			EV/EBITDA			EPS CAGR FY12-14E (%)	EBITDA CAGR FY12-14E (%)	PEG FY12-14E (x)	EV/EBITDA FY12-14E (x)
			FY12E	FY13E	FY14E	FY12E	FY13E	FY14E				
			(x)	(x)	(x)	(x)	(x)	(x)				
Bajaj Auto*	1,639	9,216	15.0	14.3	12.3	10.4	8.9	7.2	10.6	13.4	1.4	0.8
Hero Motocorp*	2,057	7,978	17.2	14.8	13.2	10.2	8.5	6.6	14.1	16.4	1.2	0.6
Maruti Suzuki*	1,323	7,424	24.0	16.1	13.0	11.5	7.5	5.8	35.9	35.2	0.7	0.3
TVS Motors	40	372	7.7	6.6	5.9	5.5	4.8	4.3	14.4	12.7	0.5	0.4
Tata Motors*	289	18,732	10.6	7.6	6.3	5.3	4.0	3.0	29.1	22.2	0.4	0.2
M&M*	692	7,861	15.3	12.5	10.8	10.0	8.3	7.0	19.2	18.8	0.8	0.6
Ashok Leyland	29	1,514	13.4	11.0	9.2	6.2	5.4	4.7	20.4	14.8	0.7	0.4
Eicher Motors	2,180	1,143	16.6	13.9	11.4	7.4	5.9	5.1	20.6	20.4	0.8	0.4

Note: Tata Motors estimates are adjusted for R&D amortization; Prices as at close of 13 April 2012
Sources: *BNP Paribas estimates; all others (not rated) are Bloomberg consensus estimates

EXHIBIT 27: Comparative valuation table

Company name	Rating	Year end	Local currency	Share price (LC)	Market cap (USD m)	P/E			EV/EBITDA		
						FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
						(x)	(x)	(x)	(x)	(x)	(x)
Tata Motors	BUY	Mar	INR	289	18,732	10.6	7.6	6.3	5.3	4.0	3.0
BMW	Not rated	Dec	EUR	68	57,026	5.8	8.4	8.1	6.8	3.0	2.9
Daimler	Not rated	Dec	EUR	41	57,384	6.1	7.8	6.8	7.0	2.9	2.6

Note: Tata Motors estimates for adjusted for R&D amortization; Prices as at close of 13 April 2012 for Tata Motors and 12 April 2012 for BMW and Daimler
Sources: BNP Paribas estimates for Tata Motors; Bloomberg consensus estimates for BMW and Daimler

EXHIBIT 28: Tata Motors – SoTP valuation

	Value	
	(INR m)	(INR/share)
Standalone FY14E EBITDA	57,659	
Standalone EV at 7x FY14E EBITDA	403,612	126
Less: Standalone FY13E net debt	(159,870)	(50)
Standalone equity value	243,742	76
JLR FY14E EBITDA (pre-R&D amortisation)	279,321	
JLR FY14E EBITDA (adjusted for R&D amortisation)	242,113	
JLR EV at 3x FY14E adjusted EBITDA	726,340	226
Add: JLR FY13E net cash	99,889	31
JLR equity value on FY14 basis	826,229	257
Other subsidiaries* (after holding company discount @ 25%)	87,686	27
SoTP-based TP	1,157,627	360

*Tata Sons stake valued at a 50% holding company discount
Source: BNP Paribas estimates

EXHIBIT 29: Valuation of other subsidiaries

Subsidiaries	Valuation methodology	Stake (%)	Value (INR m)	Value/share (INR)
Tata Daewoo CV, Korea	10x FY14E P/E	100	8,057	3
Telco Construction Equipment	Based on stake sale	40	9 272	3
Tata Technologies	10x FY14E P/E	83	13,168	4
HV Transmissions (HVTL)	10x FY14E P/E	85	19,505	6
Tata Motors Finance	1x FY14E P/BV	100	20,831	6
Other investments				
Tata Sons*	Market cap based on the market value of holdings in listed companies (13 April 2012)	3	66,131	21
Tata Steel	Current market price (13 April 2012)	0.5	1,994	1
Value/share* (after holding company discount @ 25%)			87,686	27

Note: *Tata Sons stake valued at 50% holding company discount
Sources: Tata Motors; Bloomberg; BNP Paribas estimates

Risks to our investment view

Key risks to our investment thesis and target price are any substantial decline in global consumer confidence and/or economic crisis, which could impact sales of luxury cars in developed markets such as the US, Europe and China. Although JLR's sales were somewhat resilient during the European crisis, consumer behavior could turn negative.

In the past two years, the pricing environment and exchange rates have been significantly favourable to luxury car makers. The JLR portfolio has seen price increases of over 20%, while the USD strength has underpinned earnings growth. Any significant price competition and exchange rate fluctuations can have significant impact on our earnings and outlook on the stock.

There will soon be significant changes to emission norms for Europe and other geographies. We believe these targets cannot be achieved without increases in hybrid technologies, efficiency gains for existing engines and reduction in weights. If JLR's new portfolio fails to achieve these norms, it could lose market share and pose risk to our earnings estimates and valuation.

Earnings and valuation for the domestic business are to a large extent influenced by the MHCV business. If the decline in industrial growth prolongs, it would hurt our volume, earnings and valuation assumptions for the stock.

Financial statements

Tata Motors

Profit and Loss (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Revenue	918,935	1,224,262	1,657,308	1,947,889	2,189,192
Cost of sales ex depreciation	(614,954)	(790,084)	(1,102,763)	(1,281,022)	(1,437,564)
Gross profit ex depreciation	303,981	434,178	554,545	666,867	751,628
Other operating income	6,258	7,071	6,807	7,200	7,200
Operating costs	(224,097)	(263,450)	(309,099)	(360,045)	(396,189)
Operating EBITDA	86,142	177,800	252,253	314,023	362,639
Depreciation	(43,853)	(56,180)	(70,810)	(86,541)	(101,377)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	42,288	121,620	181,443	227,481	261,262
Net financing costs	(21,552)	(20,454)	(25,879)	(31,772)	(32,276)
Associates	0	0	0	0	0
Recurring non operating income	416	896	1,738	1,943	2,598
Non recurring items	14,075	2,310	(6,603)	0	0
Profit before tax	35,226	104,372	150,700	197,653	231,584
Tax	(10,058)	(12,164)	(30,063)	(41,167)	(50,725)
Profit after tax	25,169	92,208	120,637	156,486	180,860
Minority interests	(303)	(485)	(803)	(645)	(696)
Preferred dividends	0	0	0	0	0
Other items	845	1,014	274	560	560
Reported net profit	25,711	92,736	120,108	156,401	180,724
Non recurring items & goodwill (net)	(14,075)	(2,310)	(1,647)	0	0
Recurring net profit	11,636	90,426	118,461	156,401	180,724
Per share (INR)					
Recurring EPS *	5.13	28.87	35.66	47.08	54.40
Reported EPS	11.34	29.60	36.16	47.08	54.40
DPS	3.44	3.37	3.48	3.87	3.87
Growth					
Revenue (%)	30.7	33.2	35.4	17.5	12.4
Operating EBITDA (%)	292.2	106.4	41.9	24.5	15.5
Operating EBIT (%)	(742.7)	187.6	49.2	25.4	14.8
Recurring EPS (%)	(157.0)	462.4	23.5	32.0	15.6
Reported EPS (%)	(249.2)	161.0	22.1	30.2	15.6
Operating performance					
Gross margin inc depreciation (%)	28.3	30.9	29.2	29.8	29.7
Operating EBITDA margin (%)	9.4	14.5	15.2	16.1	16.6
Operating EBIT margin (%)	4.6	9.9	10.9	11.7	11.9
Net margin (%)	1.3	7.4	7.1	8.0	8.3
Effective tax rate (%)	28.6	11.7	19.9	20.8	21.9
Dividend payout on recurring profit (%)	67.1	11.7	9.8	8.2	7.1
Interest cover (x)	2.0	6.0	7.1	7.2	8.2
Inventory days	63.7	58.6	60.2	69.0	70.6
Debtor days	23.8	21.0	23.9	30.8	32.1
Creditor days	172.7	164.4	143.9	150.2	149.0
Operating ROIC (%)	10.4	32.6	40.0	36.5	36.6
Operating ROIC - WACC (%)	2.7	24.7	32.1	28.7	28.9
ROIC (%)	8.1	25.6	32.7	30.8	31.6
ROIC - WACC (%)	0.4	17.7	24.8	23.1	23.9
ROE (%)	16.4	66.1	48.3	42.2	34.4
ROA (%)	3.4	11.5	11.7	12.0	11.8

*Pre exceptional, pre-goodwill and fully diluted

We expect JLR's margin expansion to be sustained beyond 2012

Sources: Tata Motors; BNP Paribas estimates

Tata Motors

Cash Flow (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Recurring net profit	11,636	90,426	118,461	156,401	180,724
Depreciation	43,853	56,180	70,810	86,541	101,377
Associates & minorities	(13,867)	(1,486)	803	645	696
Other non-cash items	7,883	(10,938)	(2,434)	0	0
Recurring cash flow	49,506	134,182	187,640	243,587	282,797
Change in working capital	26,009	(40,484)	37,437	4,393	11,014
Capex - maintenance	0	0	0	0	0
Capex - new investment	(84,754)	(81,240)	(199,544)	(168,802)	(169,205)
Free cash flow to equity	(9,240)	12,458	25,533	79,179	124,606
Net acquisitions & disposals	11,047	(536)	0	0	0
Dividends paid	(3,462)	(10,033)	(12,358)	(13,522)	(15,024)
Non recurring cash flows	(5,505)	(906)	1,647	0	0
Net cash flow	(7,160)	984	14,822	65,657	109,582
Equity finance	17,397	32,581	0	0	0
Debt finance	39,771	(11,708)	122,245	0	0
Movement in cash	50,009	21,857	137,067	65,657	109,582

Per share (INR)					
Recurring cash flow per share	21.84	42.84	56.49	73.33	85.13
FCF to equity per share	(4.08)	3.98	7.69	23.84	37.51

Balance Sheet (INR m) Year Ending Mar	2010A	2011A	2012E	2013E	2014E
Working capital assets	337,863	400,870	528,815	600,211	668,097
Working capital liabilities	(417,208)	(469,838)	(635,221)	(711,010)	(789,911)
Net working capital	(79,345)	(68,968)	(106,406)	(110,799)	(121,813)
Tangible fixed assets	357,998	406,514	535,248	617,508	685,336
Operating invested capital	278,653	337,546	428,842	506,710	563,523
Goodwill	34,229	35,848	35,848	35,848	35,848
Other intangible assets	0	0	4	4	4
Investments	22,191	25,443	25,443	25,443	25,443
Other assets	0	0	0	0	0
Invested capital	362,138	427,253	519,439	597,307	654,120
Cash & equivalents	(87,433)	(109,479)	(246,547)	(312,204)	(421,787)
Short term debt	0	0	0	0	0
Long term debt *	353,835	327,914	450,159	450,159	450,159
Net debt	266,402	218,435	203,612	137,955	28,373
Deferred tax	11,536	14,638	13,093	13,093	13,093
Other liabilities	0	0	0	0	0
Total equity	82,065	191,715	299,311	442,190	607,890
Minority interests	2,135	2,466	3,424	4,068	4,764
Invested capital	362,138	427,253	519,439	597,307	654,120

* includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	36.20	61.20	90.10	133	183
Tangible book value per share	9.16	40.69	70.49	114	163

Financial strength					
Net debt/equity (%)	316.4	112.5	67.3	30.9	4.6
Net debt/total assets (%)	30.7	21.7	14.5	8.5	1.5
Current ratio (x)	1.0	1.1	1.2	1.3	1.4
CF interest cover (x)	4.5	5.6	9.7	8.8	10.1

Valuation	2010A	2011A	2012E	2013E	2014E
Recurring P/E (x) *	58.6	10.4	8.4	6.4	5.5
Recurring P/E @ target price (x) *	70.1	12.5	10.1	7.6	6.6
Reported P/E (x)	26.5	10.2	8.3	6.4	5.5
Dividend yield (%)	1.1	1.1	1.2	1.3	1.3
P/CF (x)	13.8	7.0	5.3	4.1	3.5
P/FCF (x)	(73.8)	75.6	39.1	12.6	8.0
Price/book (x)	8.3	4.9	3.3	2.3	1.6
Price/tangible book (x)	32.8	7.4	4.3	2.6	1.8
EV/EBITDA (x) **	11.2	5.9	4.7	3.7	3.0
EV/EBITDA @ target price (x) **	12.8	6.8	5.4	4.3	3.5
EV/invested capital (x)	2.6	2.7	2.3	1.9	1.6

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Tata Motors; BNP Paribas estimates

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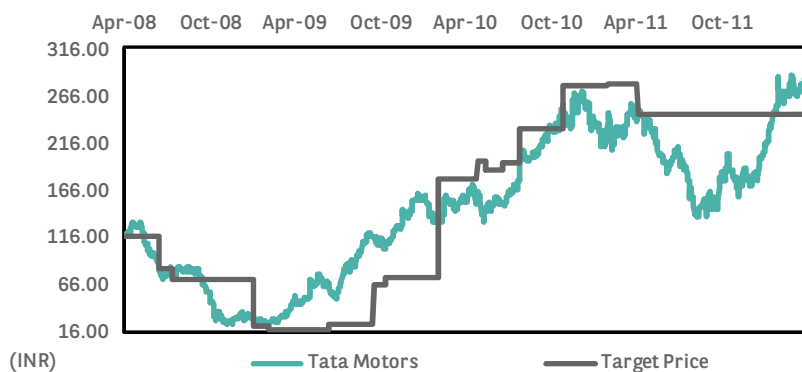
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History of change in investment rating and/or target price

Tata Motors (TTMT IN)



Date	Reco	TP
15-Apr-08	REDUCE	118.80
17-Feb-10	BUY	180.00
20-Apr-11	HOLD	249.00

Vijay Chugh started covering this stock from 17-Apr-2012

Price and TP are in local currency

Valuation and risks: Key risks to our SOTP-based target price are: 1) any substantial decline in global consumer confidence and/or economic crisis, which could impact sales of luxury calls in developed markets such as the US, Europe and China; 2) price competition and exchange rate fluctuations; 3) if JLR fails to meet the planned new emission norms for Europe and other geographies; and 4) if the decline in India's industrial growth prolongs, it would hurt our volume earnings and valuation assumptions for the domestic M&HCV business.

Sources: Bloomberg; BNP Paribas

Disclaimers and Disclosures

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-	-

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* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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