

Equities

14 February 2012 | 24 pages

Tata Motors (TAMO.BO)

3QFY12: The JLR Juggernaut Rolls On

- Company Update
- Target Price Change
- Estimate Change

- **Domestic business disappoints operationally** — with EBITDA at ~Rs 9bn missing estimates by ~17%. Revenue miss of ~4% reflected poor product mix, while elevated SG&A reflected higher marketing spends. Reported standalone PAT at Rs 1.7bn was ~2% above estimates, driven by **1)** lower expensing of product development costs, **2)** forex write-backs (Rs 2.08bn) due to accounting policy changes and **3)** lower effective tax rate
- **JLR: Operating leverage results in strong EBITDA beat** — reported EBITDA at £752m blitzed estimates of £513m. Surprisingly, ASPs increased ~1% Q/Q — partly explained by improved mix (more Evoques, fewer Freelanders) and partially F/X (~£60m, ex which margins were 18.5%). Q/Q, margins rose ~350bps, reflecting scale / op leverage. Mix enrichment continued — China was ~17% of volumes vs. 16% in 2Q.
- **Con call takeaways** — **1)** Domestic business' margins will continue to be impacted by marketing / publicity initiatives in the car business, **2)** Domestic business outlook is mixed — though interest rates appear to be moderating, mgmt voiced concern on industrial output, **3)** JLR mgmt appeared relatively optimistic — no vol guidance, Evoque bookings now at ~30k (20k earlier). Mgmt noted that J volumes have begun to recover, post the launch of the new 2.2i XF, while LR volumes remain strong, **4)** Capex reaffirmed at £1.5bn over FY12/13 - key positive, implies better free cash flow generation, **5)** Net automotive debt/equity end 3Q was 0.56x, vs. 0.70x in 2Q, **6)** Tax shield at JLR UK >£2bn — overall tax rate though will trend up due to higher profits in markets like China.
- **Raising estimates sharply** — Given current run rate in JLR, we raise EBITDA forecasts for JLR by 28-42% over FY12-14, reversing 2Q's EPS downgrades. We cut parent EBITDA forecasts by 13-17% over FY12-14 to reflect cost pressures + SGA spends for the car business. **Maintain Buy; new Rs316 TP based on SOTP** — Rs118/ Rs185 per share for parent / JLR respectively, add Rs18 for the subs and subtract Rs5 / share as net debt.
- **Key risks?** Deceleration in the China premium car market, increase in capex spends, adverse currency movements.

Buy	1
Price (14 Feb 12)	Rs267.90
Target price	Rs316.00
	<i>from Rs215.00</i>
Expected share price return	18.0%
Expected dividend yield	0.7%
Expected total return	18.7%
Market Cap	Rs785,367M
	US\$15,979M

Price Performance (RIC: TAMO.BO, BB: TTMT IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	15,051	5.28	50.0	50.8	9.3	14.7	1.1
2011A	90,695	28.44	439.2	9.4	4.5	66.3	1.5
2012E	109,672	33.29	17.0	8.0	2.9	45.3	0.6
2013E	134,724	40.90	22.8	6.6	2.0	37.9	0.7
2014E	152,755	46.37	13.4	5.8	1.5	31.1	1.1

Source: Powered by dataCentral

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TAMO.BO: Fiscal year end 31-Mar						Price: Rs267.90; TP: Rs316.00; Market Cap: Rs785,367m; Recomm: Buy					
Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	925,193	1,231,333	1,544,582	1,792,899	2,002,906	PE (x)	50.8	9.4	8.0	6.6	5.8
Cost of sales	-654,695	-836,639	-1,058,279	-1,223,181	-1,364,270	PB (x)	9.3	4.5	2.9	2.0	1.5
Gross profit	270,498	394,694	486,303	569,718	638,636	EV/EBITDA (x)	10.9	6.1	4.8	3.9	3.4
Gross Margin (%)	29.2	32.1	31.5	31.8	31.9	FCF yield (%)	7.3	3.9	4.5	6.1	8.6
EBITDA	86,142	177,800	220,748	261,241	289,391	Dividend yield (%)	1.1	1.5	0.6	0.7	1.1
EBITDA Margin (%)	9.3	14.4	14.3	14.6	14.4	Payout ratio (%)	57	14	5	5	6
Depreciation	-38,871	-46,555	-56,531	-62,371	-68,776	ROE (%)	25.2	67.7	44.0	37.9	31.1
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2010	2011	2012E	2013E	2014E
EBIT	47,270	131,245	164,217	198,870	220,615	EBITDA	86,142	177,800	220,748	261,241	289,391
EBIT Margin (%)	5.1	10.7	10.6	11.1	11.0	Working capital	43,790	-10,377	7,538	-2,126	-2,720
Net interest	-22,397	-20,454	-18,615	-16,659	-14,225	Other	-7,688	-37,318	-57,746	-64,146	-67,860
Associates	0	0	0	0	0	Operating cashflow	122,243	130,105	170,541	194,970	218,812
Non-op/Except	10,353	-6,419	-11,939	-13,165	-14,590	Capex	-66,601	-96,423	-130,971	-140,971	-142,704
Pre-tax profit	35,226	104,372	133,664	169,046	191,800	Net acq/disposals	0	0	0	0	0
Tax	-10,058	-12,164	-26,733	-33,809	-38,360	Other	-6,659	-4,871	0	0	0
Extraord./Min.Int./Pref.div.	542	528	-459	-513	-685	Investing cashflow	-73,261	-101,294	-130,971	-140,971	-142,704
Reported net profit	25,711	92,736	106,472	134,724	152,755	Dividends paid	-9,919	-14,670	-6,050	-7,271	-10,823
Net Margin (%)	2.8	7.5	6.9	7.5	7.6	Financing cashflow	-25,706	-24,076	-43,437	-44,400	-72,915
Core NPAT	15,051	90,695	109,672	134,724	152,755	Net change in cash	38,196	7,045	-7,867	9,599	3,192
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	55,642	33,682	39,570	53,998	76,108
Reported EPS (Rs)	9.01	29.08	32.32	40.90	46.37						
Core EPS (Rs)	5.28	28.44	33.29	40.90	46.37						
DPS (Rs)	3.01	4.00	1.64	1.97	2.93						
CFPS (Rs)	42.85	40.80	51.77	59.18	66.42						
FCFPS (Rs)	19.50	10.56	12.01	16.39	23.10						
BVPS (Rs)	28.76	60.13	91.62	131.59	176.11						
Wtd avg ord shares (m)	2,853	3,189	3,189	3,189	3,189						
Wtd avg diluted shares (m)	2,853	3,189	3,294	3,294	3,294						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	261.0	33.1	25.4	16.1	11.7						
EBIT (%)	471.8	177.6	25.1	21.1	10.9						
Core NPAT (%)	66.4	502.6	20.9	22.8	13.4						
Core EPS (%)	50.0	439.2	17.0	22.8	13.4						
Balance Sheet (Rsm)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	87,433	109,479	108,121	125,503	140,203						
Accounts receivables	71,912	68,774	82,507	96,205	107,652						
Inventory	113,120	140,705	166,256	191,915	211,555						
Net fixed & other tangibles	385,063	434,931	509,372	587,972	661,899						
Goodwill & intangibles	34,229	35,848	35,848	35,848	35,848						
Financial & other assets	174,998	216,815	234,523	260,032	286,279						
Total assets	866,755	1,006,552	1,136,627	1,297,474	1,443,436						
Accounts payable	340,773	371,147	435,714	492,538	545,194						
Short-term debt	0	0	0	0	0						
Long-term debt	351,924	327,914	292,577	262,719	211,450						
Provisions & other liab	89,883	113,330	113,293	119,208	121,167						
Total liabilities	782,580	812,390	841,584	874,465	877,810						
Shareholders' equity	82,065	191,715	292,137	419,591	561,522						
Minority interests	2,135	2,466	2,925	3,438	4,122						
Total equity	84,200	194,181	295,062	423,028	565,645						
Net debt	264,490	218,435	184,456	137,216	71,246						
Net debt to equity (%)	314.1	112.5	62.5	32.4	12.6						

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JLR and TTMT - 2 Businesses, 2 Speeds

We attended both the JLR and TTMT con calls. Key takeaways:

1) The domestic business remains difficult to forecast – marketing spends continue to remain elevated, a poorer mix continues to impact gross margins - a continuation of trends witnessed over 2Q. SGA is expected to be elevated over FY12 on account of marketing spends / dealer support for the car business (in FY11, publicity expenses rose 87% Y/Y), and is expected to be a permanent feature into FY13. Our cut in our FY12-14 domestic EBITDA (by ~13-17% over FY12-14E) reflects the normalization in material expenses and the increase in SG&A / opex as % of sales to reflect the lower capacity utilization levels (and consequent lower operating leverage) in the passenger car business.

On F/X - there is a cRs2.9bn FX loss in 3Q, against which there is an F/X write back of ~Rs2.1bn. The write back arises on account of the change as per IAS11, under which companies can now write off FX losses over the life of the liability or 2020, whichever is earlier. Essentially, FX losses that were previously being written off at a rapid clip are now being amortized over longer time horizons.

2) From JLR's perspective, ASPs rose slightly Q/Q, and were also slightly higher (~3%) on Y/Y basis. Mgmt attributes this to mix and the China effect – this Q China was ~17% of volumes, vs. 13% in 4Q11. Currency gains were ~60m GBP in the Q, benefiting margins. Our JLR estimates have been sharply hiked, as we tweak ASPs upwards and also increase volumes to reflect continued strength across product lines. What's especially surprising is the continued resilience in JLR's volumes in the continental European markets, despite macro concerns in this geography. Extrapolating 9mFY12, JLR appears well positioned to meet our revised FY12 Revenue forecast of £ 15.1bn.

3) For JLR, we've increased our current volume estimates. At the end of 2Q, we'd noted there was an upward bias in our forecasts, especially if 4Q was strong. We now think that we are at the upper end of relatively positive expectations. We remain surprised by the weak offtake for Jaguar in the UK (home brand with very strong pull and appeal) as also in North America. We are also surprised by the positive traction that Jaguar has enjoyed in Europe this Q, reversing 2Qs of very weak sales. Land Rover retail volumes appear strong across geographies. The LR mix indicates that Freelander sales dipped ~35% Y/Y as management compensated for the shortfall in engines by supplying engines to the Evoque (shares an engine with the Freelander). Across other brandlines, Land Rover depicted fairly healthy growth rates. It is noteworthy that the retail sales mix is now broad-basing – China + RoW now account for ~33% of retail volumes vs. ~30% 4Qs ago. We also note that China + RoW as % of retail has slipped ~180bps Q/Q - we think this is on account of the fact that Evoque shipments to China haven't commenced meaningfully.

4) From a balance sheet perspective, the build-up in gross debt levels appears to be stabilising somewhat - to ~Rs452bn end 3Q (vs Rs439bn end 2Q12). The broad break up of debt is as follows: Rs190bn in TTMT, Rs142bn in Tata Motors Finance, £1.56bn in JLR (= Rs125bn @ Rs80 / GBP). We note that some of this debt is due to higher unutilized cash (and debt) levels post the 1bn GBP bond issuance and the USD500m ECB. At a net debt level, overall net automotive is Rs150bn. Over the next 3 Qs we would like to see these debt levels reducing incrementally, especially as cash generation from the Evoque steps up. A continued positive factor was the fact that despite JLR's capex of ~£360m in the Q, it generated free cash flow of £385m in the Q vs. £234m in 1H12.

Earnings Revision

We raise consolidated earnings estimates by 35-42% over FY12/14E – a confluence of 1) 13-17% cut in parent EBITDA assumptions and 2) 28-42% increase in JLR EBITDA assumptions over the same period.

Our cut in our FY12-14 domestic EBITDA reflects the normalization in material expenses and the increase in SG&A / opex as % of sales to reflect the lower capacity utilization levels (and consequent lower operating leverage) in the passenger car business.

The sharp hike in our JLR estimates emanates from 1) upward revision in ASPs and 2) increase in volume assumptions to reflect continued strength across product lines. Extrapolating 9mFY12, JLR appears well positioned to meet our revised FY12 Revenue forecast of £ 15.1bn.

Figure 1. Tata Motors: Earnings Revision

Domestic Business Earnings Revision									
	Old			New			Change		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Volumes									
MHCV	229,032	251,936	267,052	224,751	240,484	276,557	-1.9%	-4.5%	3.6%
LCV	351,927	416,116	478,534	340,375	393,841	452,917	-3.3%	-5.4%	-5.4%
UVs	45,915	52,802	59,138	47,648	52,412	57,654	3.8%	-0.7%	-2.5%
Cars (ex Nano)	144,734	166,444	195,004	155,425	174,352	199,572	7.4%	4.8%	2.3%
Nano	100,000	120,000	140,000	70,000	80,000	90,000	-30.0%	-33.3%	-35.7%
Total	871,609	1,007,298	1,139,728	838,198	941,089	1,076,700	-3.8%	-6.6%	-5.5%
Net Sales									
	512,760	596,305	678,089	503,699	568,270	670,158	-1.8%	-4.7%	-1.2%
EBITDA	42,751	52,248	62,435	37,373	43,136	54,301	-12.6%	-17.4%	-13.0%
EBITDA Margin (%)	8.3%	8.8%	9.2%	7.4%	7.6%	8.1%			
PBT	16,408	24,449	31,447	12,271	16,715	24,881	-25.2%	-31.6%	-20.9%
Recurring PAT	12,306	18,337	23,586	10,430	12,536	18,661	-15.2%	-31.6%	-20.9%
Jaguar Land Rover Earnings Revision									
	Old			New			Change		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Jaguar Volumes	45,044	47,296	47,296	52,993	50,343	51,350	17.6%	6.4%	8.6%
Land Rover Volumes	223,159	250,167	291,184	244,000	300,660	330,726	9.3%	20.2%	13.6%
Total	268,203	297,464	338,480	296,993	351,003	382,076	10.7%	18.0%	12.9%
Revenue (£ mn)	11,265	12,270	13,708	12,771	15,093	16,429	13.4%	23.0%	19.8%
ASP (£ / vehicle)	42,000	41,250	40,500	43,000	43,000	43,000	2.4%	4.2%	6.2%
EBITDA (£ mn)	1,719.7	1,853.4	2,099.2	2,206.6	2,637.9	2,834.1	28.3%	42.3%	35.0%
EBITDA Margin	15.3%	15.1%	15.3%	17.3%	17.5%	17.3%			
Consolidated Earnings Revision									
	Old			New			Change		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Net Sales	1,370,082	1,529,959	1,719,084	1,544,582	1,792,899	2,002,906	12.7%	17.2%	16.5%
EBITDA	178,319	198,829	228,345	220,748	261,241	289,391	23.8%	31.4%	26.7%
EBITDA Margin (%)	13.0%	13.0%	13.3%	14.3%	14.6%	14.4%			
PBT	98,593	110,328	131,163	133,664	169,046	191,800	35.6%	53.2%	46.2%
Recurring PAT	85,810	94,921	112,771	109,672	134,724	152,755	27.8%	41.9%	35.5%
EPS (FD)	26.0	28.8	34.2	33.3	40.9	46.4	27.8%	41.9%	35.5%

Source: Citi Investment Research and Analysis estimates

Figure 2. Tata Motors: Sum of Parts Valuation

SOTP	Methodology	Equity Value	Diluted No of Shares	New Target Price (Rs/share)
Base Business	9x Mar13 EV/EBITDA	43,136	3,294	Rs 118
Total Subsidiary at 20% discount				Rs 18
Jaguar Land Rover	3x Mar 13 EV/EBITDA	203,119	3,294	Rs 185
Less: Net Debt (adjusted for vehicle finance loan portfolio)		17,216	3,294	Rs 5
Total SOTP Valuation for Tata Motors				Rs 316

Source: Citi Investment Research and Analysis

3QFY12 Results Summary

Figure 3. Tata Motors: Quarterly Volume Trends

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
H / MCVs	50,883	54,334	53,982	6.1%	-0.6%
LCVs	74,617	89,960	89,636	20.1%	-0.4%
Total CVs	125,500	144,294	143,618	14.4%	-0.5%
UVs	9,478	12,003	13,745	45.0%	14.5%
Cars	51,842	50,137	69,748	34.5%	39.1%
Total Passenger	61,320	62,140	83,493	36.2%	34.4%
Total Vehicle Sales	186,820	206,434	227,111	21.6%	10.0%

Source: Company, Citi Investment Research and Analysis

Figure 4. Jaguar Land Rover: Wholesale Volume Trends

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
North America	14,359	11,728	17,201	19.8%	46.7%
UK	11,942	15,080	14,229	19.2%	-5.6%
Europe (excl Russia)	15,441	15,549	20,560	33.2%	32.2%
Russia	3,380	3,429	4,515	33.6%	31.7%
China	8,196	10,880	14,817	80.8%	36.2%
RoW	9,827	11,334	15,000	52.6%	32.3%
Total	63,145	68,000	86,322	36.7%	26.9%

Source: Company

Figure 5. Jaguar Land Rover: Retail Volume Trends

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
North America	13,959	12,106	16,738	19.9%	38.3%
UK	10,915	14,996	12,593	15.4%	-16.0%
Europe (excl Russia)	12,843	12,458	18,695	45.6%	50.1%
Russia	3,322	3,369	4,532	36.4%	34.5%
China	7,983	10,869	12,613	58.0%	16.0%
RoW	9,346	11,884	13,122	40.4%	10.4%
Total	58,368	65,682	78,293	34.1%	19.2%

Source: Company

Figure 6. Tata Motors: Standalone 3QFY12 Results (Rs mn)

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ	CIRA Comments
Gross Sales	125044	140,967	145,551			
Less: Excise duty	9,849	11,429	12,172			
Net sales	115,196	129,538	133,379	15.8%	3.0%	~4% below estimates. Negative mix shift
Decrease/(Increase) in Stocks	1,450	(319)	(4,351)			
Raw Materials	79,220	96,080	102,951	22.2%	3.0%	~4% below estimates. Primarily on account of product mix
Staff costs	5,809	6,829	6,950	19.6%	1.8%	In line with estimates
Other Expenses	16,756	17,617	18,857	12.5%	7.0%	~2% above estimates. Heightened marketing spend on passenger cars. Lower economies of scale due to lower capacity utilization in cars
Total Expenditure	103,236	120,207	124,407	20.5%	3.5%	~3% below estimates
EBITDA	11,960	9,331	8,972	-25.0%	-3.9%	~17% below estimates. Driven by revenue miss
Forex gains / (losses)	(305)	(2,942)	(833)			Reflects ~Rs 280 mn of forex gain due to accounting policy change
Product Development	277.1	602.1	454	63.9%	-24.6%	40% below estimates
Interest	2,749	2,121	1,860	-32.3%	-12.3%	
Other income	54	568	250	362.3%	-56.0%	
EBDT	8,683	4,234	6,075	-30.0%	43.5%	
Depreciation & Amortization	3,371	3,869.1	4,213	25.0%	8.9%	~8% above estimates
PBT	5,312	365.0	1,862	-64.9%	410.2%	
Tax	1,211	(655)	125			
PAT	4,101	1,020	1,737	-57.6%	70.2%	~2% above estimates
Profit Margins						
EBITDA (%) net sales	10.4	7.2	6.7			
Interest cover (x)	4.4	4.7	5.0			
Other income / PAT (%)	1.3	55.7	14.4			
EBIT (%)	6.9	3.9	3.3			
EBDT (%)	6.9	3.0	4.2			
Pre tax margins (%)	4.2	0.3	1.3			
Tax / PBT (%)	22.8	-179.5	6.7			
Net profit margins (%)	3.6	0.8	1.3			
Cost ratios (net sales)						
Raw materials / sales	70.0	73.9	73.9			
Staff costs / sales	5.0	5.3	5.2			
Other expenses / sales	14.5	13.6	14.1			

Source: Company, Citi Investment Research and Analysis

Figure 7. Jaguar Land Rover: Standalone 3QFY12 Results (Rs mn)

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
Revenue	2,660	2,929	3,746	40.8%	27.9%
ASP	42,125	43,066	43,400	3.0%	0.8%
EBITDA	463	437	752	62.4%	72.1%
EBITDA Margin (%)	17.4%	14.9%	20.1%		
PBT	295	287	559	89.6%	95.1%
PAT	275	238	440	60.1%	85.4%

Source: Company, Citi Investment Research and Analysis

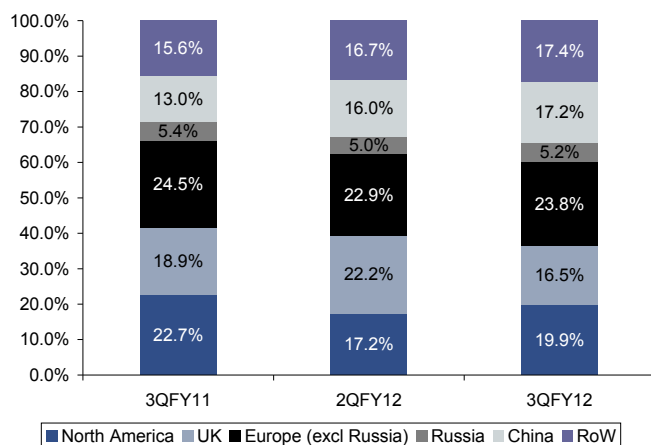
Figure 8. Tata Motors: Consolidated 3QFY12 Results (Rs mn)

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
Gross Sales	327,232	373,790	465,793	42.3%	24.6%
Less: Excise duty	10,380	11,814	13,190	27.1%	11.6%
Net sales	316,852	361,975	452,603	42.8%	25.0%
Decrease/(Increase) in Stocks	239	(7,740)	(9,864)		
Raw Materials	202,184	249,128	309,808	48.2%	24.3%
Staff costs	24,266	28,656	32,072	32.2%	11.9%
Other Expenses	41,940	43,777	48,360	15.3%	10.5%
Total Expenditure	268,629	313,821.2	380,375.6	41.6%	21.2%
EBITDA	48,223	48,154	72,227	49.8%	50.0%
Forex gains / (losses)	(327)	(4,390)	(1,643)		
Product Development	3,337	3,114.8	3,957.1	18.6%	27.0%
Interest	4,993	5,251	5,769	15.5%	9.9%
Other income	99	608	240	142.7%	-60.5%
EBDT	39,665	36,008	61,097	54.0%	69.7%
Depreciation & Amortization	12,388	13,308	16,159	30.4%	21.4%
PBT	27,277	22,700	44,938	64.7%	98.0%
Tax	3,188	3,630	10,711	236.0%	195.0%
PAT	24,089	19,069	34,227	42.1%	79.5%
Minority Interest and share of profits from associate cos	155	(296)	(172)		
Net Profit	24,244	18,773	34,056	40.5%	81.4%
Profit Margins					
EBITDA Margin (%)	15.2	13.3	16.0		
Interest cover (x)	0.0	9.3	12.6		
EBIT (%)	0.0	9.3	12.0		
EBDT (%)	12.1	9.6	13.1		
Pre tax margins (%)	8.3	6.1	9.6		
Tax / PBT (%)	11.7	16.0	23.8		
Net profit margins (%)	7.4	5.0	7.3		
Cost ratios (net sales)					
Raw materials / sales	63.9	66.7	66.3		
Staff costs / sales	7.7	7.9	7.1		
Other expenses / sales	13.2	12.1	10.7		

Source: Company, Citi Investment Research and Analysis

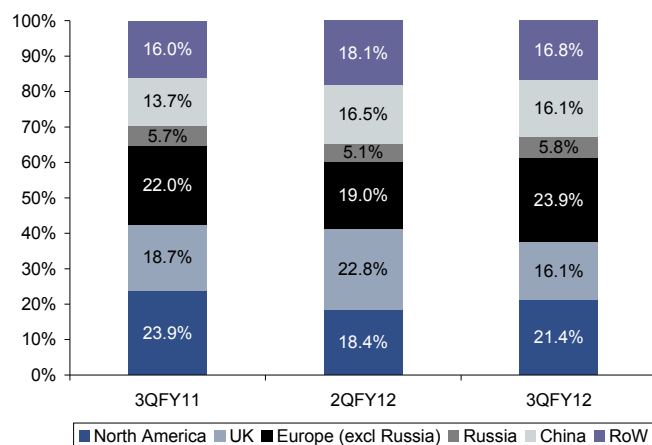
JLR Volume Trends

Figure 9. Jaguar Land Rover: Wholesales volumes by geography



Source: Company

Figure 10. Jaguar Land Rover: Retail volumes by geography



Source: Company

Figure 11. Land Rover Wholesale Volumes

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
North America	10,663	8,948	12,830	20.3%	43.4%
UK	8,275	10,848	11,176	35.1%	3.0%
Europe (excl Russia)	12,827	13,102	17,621	37.4%	34.5%
Russia	3,164	3,154	4,094	29.4%	29.8%
China	7,220	9,175	12,471	72.7%	35.9%
RoW	7,834	9,467	12,858	64.1%	35.8%
Total	49,983	54,694	71,050	42.1%	29.9%

Source: Company

Figure 12. Jaguar Wholesale Volumes

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
North America	3,696	2,780	4,371	18.3%	57.2%
UK	3,667	4,232	3,053	-16.7%	-27.9%
Europe (excl Russia)	2,614	2,447	2,939	12.4%	20.1%
Russia	216	275	421	94.9%	53.1%
China	976	1,705	2,346	140.4%	37.6%
RoW	1,993	1,867	2,142	7.5%	14.7%
Total	13,162	13,306	15,272	16.0%	14.8%

Source: Company

Figure 13. Land Rover Retail Volumes

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
North America	10,228	9,010	13,592	32.9%	50.9%
UK	7,695	10,635	10,130	31.6%	-4.7%
Europe (excl Russia)	10,400	10,127	16,024	54.1%	58.2%
Russia	3,115	3,091	4,111	32.0%	33.0%
China	7,421	9,235	10,477	41.2%	13.4%
RoW	7,585	10,351	10,953	44.4%	5.8%
Total	46,444	52,449	65,287	40.6%	24.5%

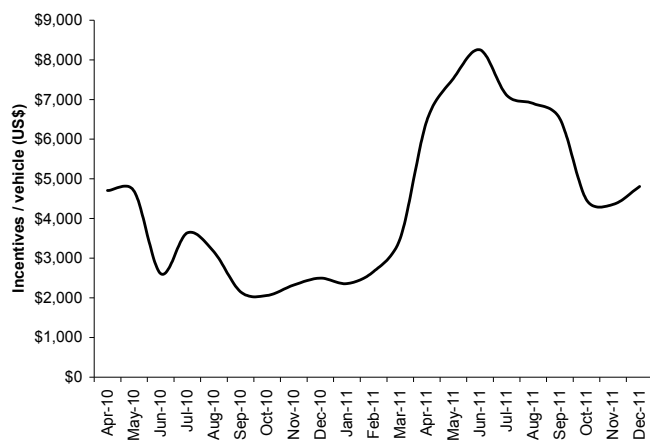
Source: Company

Figure 14. Jaguar Retail Volumes

	3QFY11	2QFY12	3QFY12	% Chg YoY	% Chg QoQ
North America	3,731	3,096	3,146	-15.7%	1.6%
UK	3,220	4,361	2,463	-23.5%	-43.5%
Europe (excl Russia)	2,443	2,331	2,671	9.3%	14.6%
Russia	207	278	421	103.4%	51.4%
China	562	1,634	2,136	280.1%	30.7%
RoW	1,761	1,533	2,169	23.2%	41.5%
Total	11,924	13,233	13,006	9.1%	-1.7%

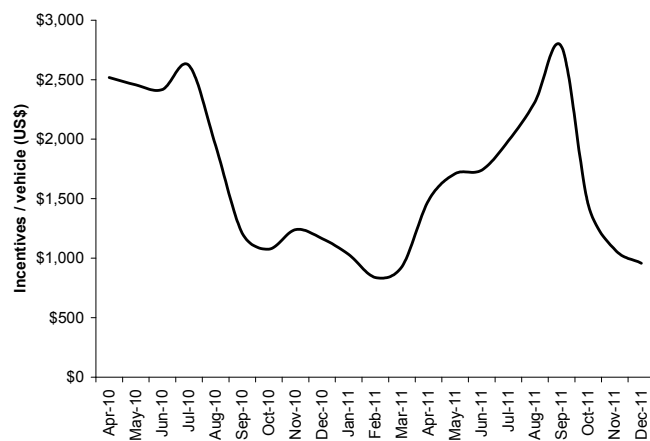
Source: Company

Figure 15. Jaguar Incentives (US\$ / vehicle)



Source: Autodata

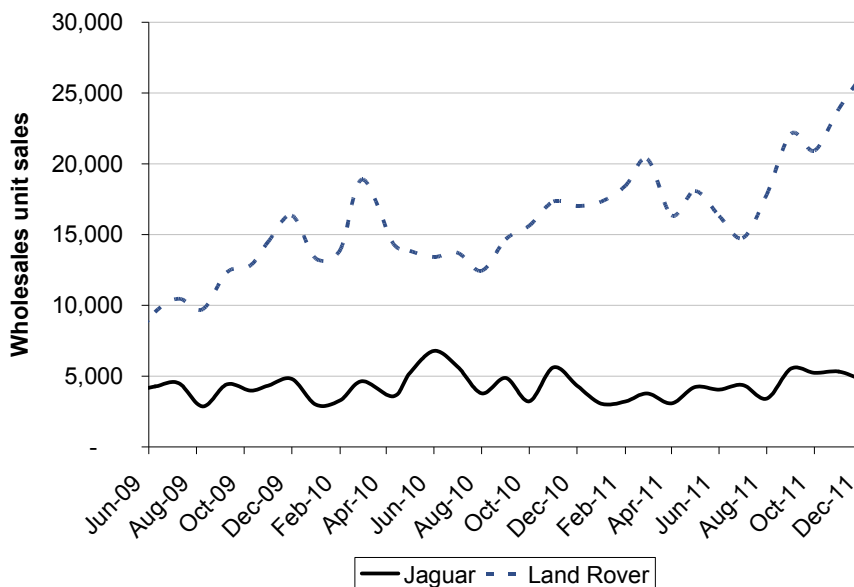
Figure 16. Land Rover Incentives (US\$ / vehicle)



Source: Autodata

The sharp uptick in LR sales is primarily a reflection of incremental volumes of the Evoque.

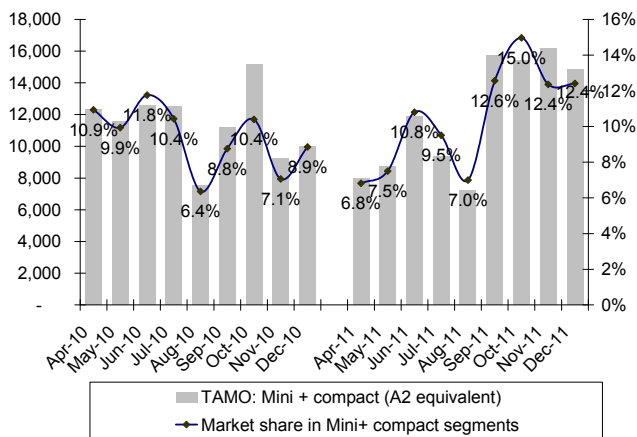
Figure 17. Jaguar Land Rover: Monthly wholesale volume trend



Source: Company

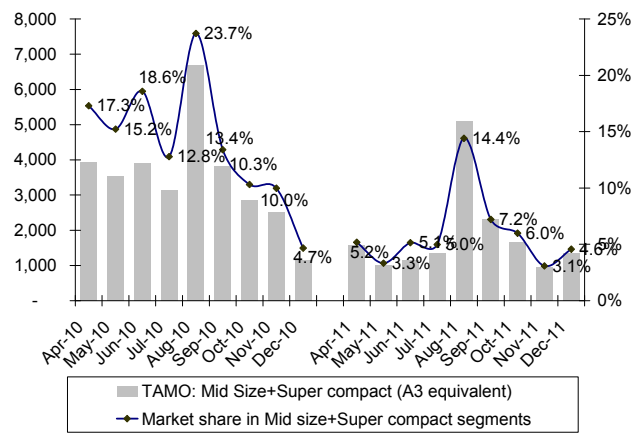
Domestic Business Volume / Market Share Trends

Figure 18. Tata Motors: Domestic sales --- Mini + Compact Cars



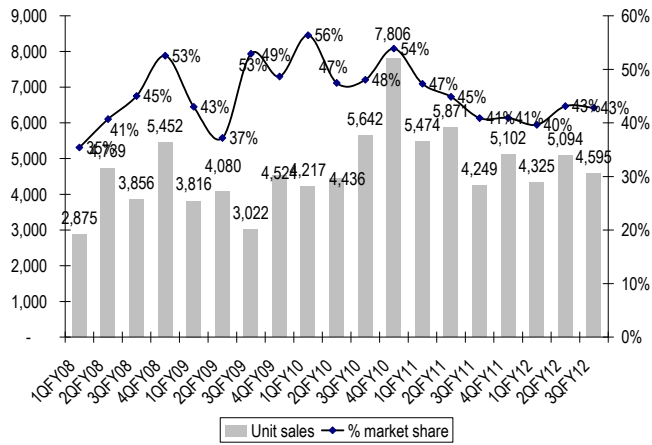
*Note: SIAM changed classifications in April 2011. Mini+Compact is a close approximation to the earlier A2 segment
Source: SIAM, Company, Citi Investment Research and Analysis

Figure 19. Tata Motors: Domestic sales --- Mid Size + Super Compact Cars



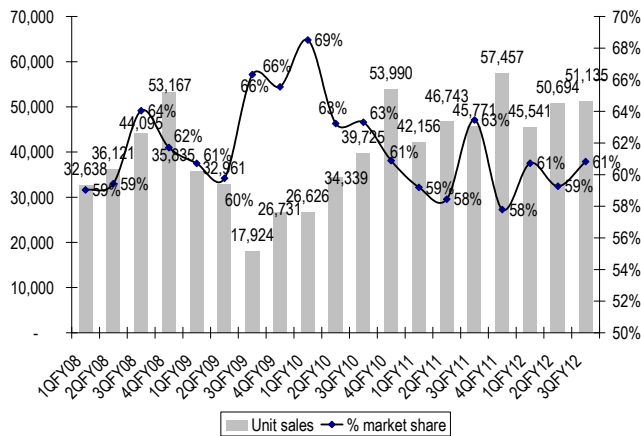
*Note: SIAM changed classifications in April 2011. Mid size+super compact is an approximation to the earlier A3 segment.
Source: SIAM, Company, Citi Investment Research and Analysis

Figure 20. Tata Motors: Domestic Passenger MHCV Sales



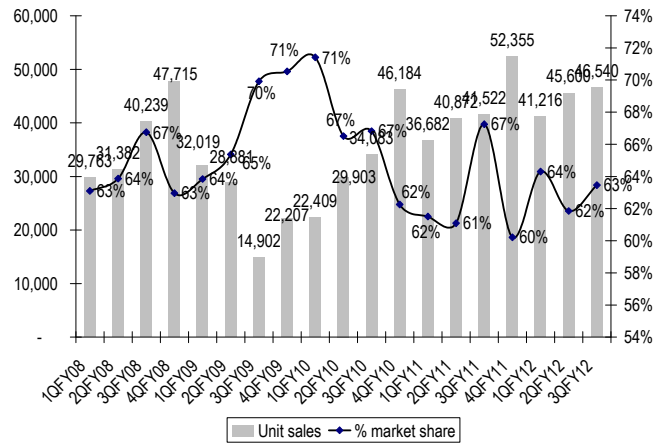
Source: SIAM, Citi Investment Research and Analysis

Figure 22. Tata Motors: Total Domestic MHCV Sales



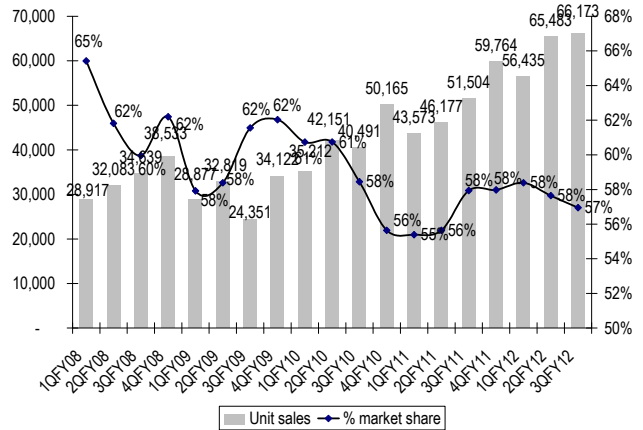
Source: SIAM, Citi Investment Research and Analysis

Figure 21. Tata Motors: Domestic Goods MHCV Sales



Source: SIAM, Citi Investment Research and Analysis

Figure 23. Tata Motors: Total Domestic LCV Sales



Source: SIAM, Citi Investment Research and Analysis

Financial Statements

Figure 24. Tata Motors: Standalone Profit and Loss Statement (Rs mn)

	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Net Sales	355,931	480,405	503,699	568,270	670,158
% Change YoY	38.9	35.0	4.8	12.8	17.9
Raw Materials	243,283	340,825	361,948	408,364	481,616
% of Net Sales	68.4	70.9	71.9	71.9	71.9
Other Variable Expenses	28,640	38,602	41,773	46,101	54,501
% of Net Sales	8.0	8.0	8.3	8.1	8.1
Employee Cost	18,361	22,940	25,234	29,019	32,502
% of Net Sales	5.2	4.8	5.0	5.1	4.8
Power & Fuel Cost	3,626	4,713	4,911	5,734	6,822
% of Net Sales	1.0	1.0	1.0	1.0	1.0
Other Expenses	20,238	25,612	32,460	35,915	40,417
% of Net Sales	5.7	5.3	6.4	6.3	6.0
Total Expenses	314,148	432,692	466,326	525,134	615,858
% of Net Sales	88.3	90.1	92.6	92.4	91.9
EBITDA	41,783	47,713	37,373	43,136	54,301
EBITDA (%)	11.7	9.9	7.4	7.6	8.1

Source: Company, Citi Investment Research and Analysis

Figure 25. Jaguar Land Rover Profit and Loss Statement (£ mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	6,554	9,905	12,771	15,093	16,429
Raw Materials (mat costs + bought outs)	4,439	6,101	7,958	9,403	10,186
% of Net Sales	67.7	61.6	62.3	62.3	62.0
Other Variable Expenses (stores, spares, tools)	59.0	99.1	127.7	135.8	164.3
% of Net Sales	0.90	1.00	1.00	0.90	1.00
Employee Cost	730	767	904	1032.6	1082.7
% of Net Sales	11.14	7.74	7.08	6.84	6.59
Power & Fuel Cost	56.2	74.1	90.3	106.8	116.2
% of Net Sales	0.86	0.75	0.71	0.71	0.71
Other Expenses	838	1,245	1,483	1,777	2,046
% of Net Sales	12.78	12.57	11.62	11.77	12.45
Total Expenses	6,122	8,287	10,564	12,455	13,595
% of Net Sales	93.41	83.66	82.72	82.52	82.75
EBITDA	432	1,619	2,207	2,638	2,834
EBITDA (%)	6.6	16.3	17.3	17.5	17.3

Source: Company, Citi Investment Research and Analysis

Figure 26. Tata Motors: Consolidated Profit and Loss Statement (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net sales & operational income	925,193	1,231,333	1,544,582	1,792,899	2,002,906
% change YoY	30.4	33.1	25.4	16.1	11.7
Raw material expenses	615,823	790,084	1,001,748	1,160,809	1,295,494
% of net sales	66.6	64.2	64.9	64.7	64.7
Manpower costs	87,518	93,427	99,482	113,573	121,240
% of net sales	9.5	7.6	6.4	6.3	6.1
Other variable expenses	45,840	56,668	64,049	70,573	83,062
% of net sales	5.0	4.6	4.1	3.9	4.1
Fixed expenses	135,795	170,768	220,551	248,899	266,098
% of net sales	14.7	13.9	14.3	13.9	13.3
Expenses Capitalised	(45,925)	(57,413)	(61,996)	(62,196)	(52,379)
Cost of sales	839,051	1,053,533	1,323,834	1,531,658	1,713,515
% of sales	90.7	85.6	85.7	85.4	85.6
EBITDA	86,142	177,800	220,748	261,241	289,391
Product Development	4,982	9,625	11,550	17,325	19,250
Interest	22,397	20,454	18,615	16,659	14,225
Other income	416	896	3,611	4,160	4,660
EBDT	59,178	148,617	194,194	231,418	260,576
Depreciation	38,871	46,555	56,531	62,371	68,776
Exceptionals	14,919	2,310	(4,000)	-	-
PBT	35,226	104,372	133,664	169,046	191,800
Tax	10,058	12,164	26,733	33,809	38,360
PAT	25,169	92,208	106,931	135,237	153,440
Minority Interest and share of profits from associate cos	542	528	(459)	(513)	(685)
PAT (reported)	25,711	92,736	106,472	134,724	152,755
PAT (Recurring)	15,051	90,695	109,672	134,724	152,755
Profit Margins					
EBITDA Margins(%)	9.3	14.4	14.3	14.6	14.4
Other income / EBDIT (%)	0.5	0.5	1.7	1.7	1.7
Other income / PAT (%)	1.6	1.0	3.4	3.1	3.1
Interest cover (X)	3.6	8.3	11.4	14.9	19.3
EBDT (%)	6.4	12.1	12.6	12.9	13.0
Pre tax margins (%)	3.8	8.5	8.7	9.4	9.6
Tax / PBT (%)	28.6	11.7	20.0	20.0	20.0
Net profit margins (%)	2.8	7.5	6.9	7.5	7.6
EPS FD (Rs)	5.3	28.4	33.3	40.9	46.4

Source: Company, Citi Investment Research and Analysis estimates

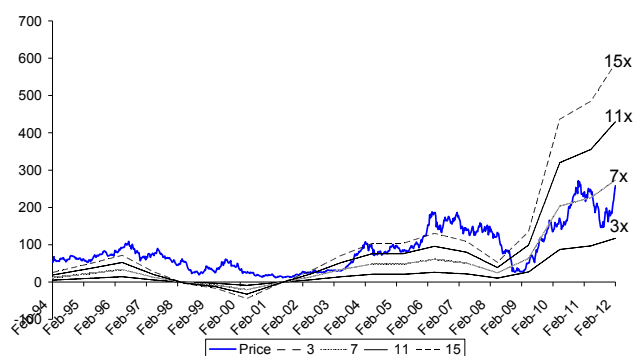
Figure 27. Tata Motors: Consolidated Balance Sheet (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	5,706	6,377	6,377	6,377	6,377
Reserves and Surplus	76,359	185,338	285,760	413,213	555,145
Shareholder's Equity	82,065	191,715	292,137	419,591	561,522
Minority Interest	2,135	2,466	2,925	3,438	4,122
Total Debt	351,924	327,914	292,577	262,719	211,450
Deferred Tax Liability	11,536	14,638	14,638	14,638	14,638
Total Sources of Funds	447,660	536,733	602,277	700,385	791,732
Gross Block	648,518	714,629	845,601	986,572	1,129,276
Less: Depreciation	344,135	396,987	453,517	515,889	584,665
Net Block	304,383	317,643	392,083	470,683	544,611
CWIP	80,680	117,289	117,289	117,289	117,289
Fixed Assets	385,063	434,931	509,372	587,972	661,899
Goodwill	34,229	35,848	35,848	35,848	35,848
Investments	22,191	25,443	25,443	25,443	25,443
Current Assets					
Interest Accrued on Investments	24	19	19	19	19
Inventories	113,120	140,705	166,256	191,915	211,555
Sundry Debtors	71,912	68,774	82,507	96,205	107,652
Cash and Bank Balances	87,433	109,479	108,121	125,503	140,203
Loans and Advances	76,223	91,247	98,943	113,438	127,569
Loans and Adv on vehicles	76,584	100,125	110,138	121,151	133,267
Total Current Assets	425,296	510,349	565,983	648,231	720,265
Current Liabilities and Provisions					
Current Liabilities	340,773	371,147	435,714	492,538	545,194
Provisions	76,435	98,692	98,655	104,570	106,529
Total CL and Provisions	417,208	469,838	534,369	597,109	651,722
Net Current Assets	8,088	40,511	31,614	51,123	68,543
Misc Expenditure	-1911.5	0	0	0	0
Total Assets	447,660	536,733	602,277	700,385	791,732

Source: Company, Citi Investment Research and Analysis estimates

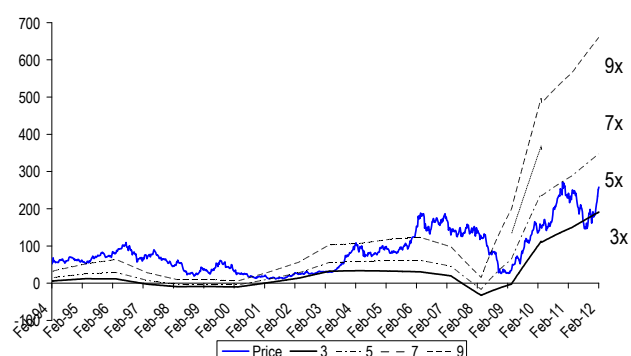
Valuations

Figure 28. Tata Motors: P / EPS (x) Band chart



Source: Citi Investment Research and Analysis

Figure 29. Tata Motors: EV / EBITDA (x) Band chart



Source: Citi Investment Research and Analysis

Quants View – Attractive

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Data as of: 03-Feb-12

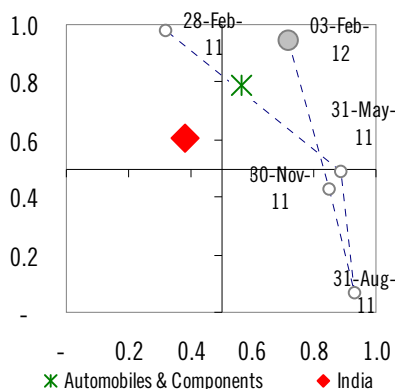
Radar Screen Quadrant Definitions

Glamor Poor relative value but superior relative momentum	Attractive Superior relative value and superior relative momentum
Unattractive Poor relative value and poor relative momentum	Contrarian Superior relative value but poor relative momentum

Tata Motors Ltd currently lies in the Attractive quadrant of our Value-Momentum map with strong value and momentum scores. The stock has moved from the Contrarian quadrant to the Attractive quadrant in the past 2 months indicating rising momentum (while valuations remain cheap) - which means the market has recognised the fact that the stock is an attractive investment proposition. Compared to its peers in the Automobiles & Components sector, Tata Motors Ltd fares better on the valuation metric and on the momentum metric. Similarly, compared to its peers in its home market of India, Tata Motors Ltd fares better on the valuation metric and on the momentum metric.

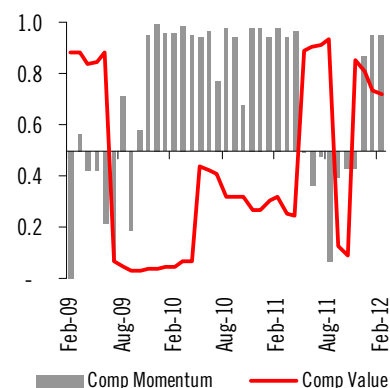
From a macro perspective, Tata Motors Ltd has a high Beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from tightening US credit spreads, widening Asian interest rates, falling EM yields, and a weaker US Dollar.

Figure 30. Radar Quadrant Chart History



Source: CIRA

Figure 31. Radar Valuation and Momentum Scores



Source: CIRA

Figure 32. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	(11.36)	Implied Trend Growth (%)	61.38
FY(-1)	8.93	Trailing PE (x)	9.23
FY0	28.24	Implied Cost of Debt (%)	6.80
FY1	28.38	Standardised MCap	0.63
FY2	31.54		

Note: Standardised MCap calculated as a Z score - (mkt cap - mean)/std dev - capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 33. Stock Performance Sensitivity to Key Macro Factors

Region	1.67	Commodity ex Oil	(0.11)
Local Market	1.13	Rising Oil Prices	(0.03)
Sector	(0.23)	Rising Asian IR's	0.55
Growth Outperforms Value	(0.88)	Rising EM Yields	(1.00)
Small Caps Outperform Large Caps	1.01	Weaker US\$ (vs Asia)	1.84
Widening US Credit Spreads	(0.41)	Weaker ¥ (vs US\$)	0.34

Source: Citi Investment Research and Analysis

Tata Motors

Company description

Tata Motors is one of the main companies of the Tata Group, India's largest business conglomerate. It is among the country's largest manufacturers of automobiles with a dominant position in the commercial-vehicle business. It has a significant presence in the utility vehicle and passenger-car segments too. The company has a 100% stake in Jaguar and Land Rover.

Investment strategy

We rate Tata Motors shares Buy (1). TTMT has benefited for the past two years from a benign macro environment; it has raised equity and deleveraged its balance sheet meaningfully. Medium term (from a 2+ year perspective), we think Tata Motors has several thematically appealing characteristics – it is well positioned as a proxy to the India infrastructure / capex story, given its dominant positioning in trucks), it is also taking the correct steps to become a stronger player in the premium passenger car space globally, which should benefit from strong growth in China and other emerging markets. Going forward, over the next few months, we anticipate some headwinds in both its key businesses. We expect CVs might be impacted given the higher interest rate regime and slower industrial growth climate in India. JLR could also potentially face headwinds in the form of greater competitive intensity from premium luxury manufacturers as also a slowdown in Europe – all factors that could result in rising discounts and lower profitability – this when coupled with an ambitious long-term capex program definitely heightens the business risk over the next year.

Valuation

Our Rs316 target price for Tata Motors is based on a sum-of-the-parts valuation. We value Tata Motors' core business at Rs118/share (on a share count of 3294m shares), based on 9x Mar13E EV/EBITDA. We value subsidiaries and investments at Rs18. We value JLR at 3x Mar13E EV/EBITDA, which equates to around Rs185/share and then deduct the total net debt which amounts to around Rs 5/share. At our target price, TTMT would trade at a consolidated price-to-book value of 2.5x / 1.9x (FY13/14E), which appears reasonable when juxtaposed against ROEs of 32%, 27% in FY13E/14E respectively. On a P/E basis, the stock would trade at ~7.7x and 6.8x FY12E/13E EPS.

Risks

The key downside risks to our estimates that could prevent the shares from reaching our target price emanate from: a) JLR is exposed to risks of a global macro slowdown. Weaker-than-forecast demand conditions for luxury cars and SUVs in Europe and the US could impact JLR volumes and EPS, given the high leverage of this business to these geographies, b) increase in competitive intensity from JLR's peer group (Mercedes, BMW, Audi) could result in lower-than-expected volume growth, c) cyclical risks within the CV business are increasing- our CV forecasts are predicated on our economist Rohini Malkani's view that industrial growth should rebound in FY13, and d) we assume that the credit and liquidity environment will remain stable. A credit 'crunch' could impact consumer confidence and possibly JLR's sales (especially in developed markets). Given TTMT's fairly leveraged balance sheet, this is a risk. Key upside risks to our target price are as follows: a) better-than-forecast growth in the Range Rover / Land Rover product

portfolio, b) a turnaround of the passenger car business in India, and c) a sharp upward climb in the CV cycle in India.

Appendix A-1 Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Tata Motors (TAMO.BO) Ratings and Target Price History Fundamental Research

Analyst: Jamshed Dadabhoy



	Date	Rating	Target Price	Closing Price
1	3-Jun-09	*2M	*76.80	72.40
2	30-Nov-09	*1M	*165.60	132.18
3	2-Mar-10	1M	*170.20	159.42
4	19-Apr-10	1M	*189.40	155.09

* Indicates change

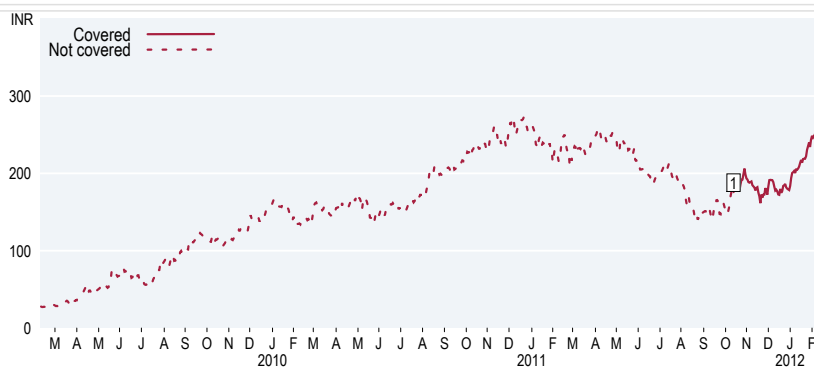
	Date	Rating	Target Price	Closing Price
5	13-Aug-10	1M	*239.40	203.40
6	10-Nov-10	1M	*306.60	260.43
7	20-Jul-11	1M	*240.60	193.74
8	12-Aug-11	1M	*228.20	160.22

	Date	Rating	Target Price	Closing Price
9	14-Sep-11	1M	*228.20	142.50
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	228.20	158.80
12	15-Nov-11	1	*215.00	181.30

Rating/target price changes above reflect Eastern Standard Time

Tata Motors (TAMO.BO) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jamshed Dadabhoy



	Date	Rating	Target Price	Closing Price
1	13-Oct-11	*ADD MP	-	175.75

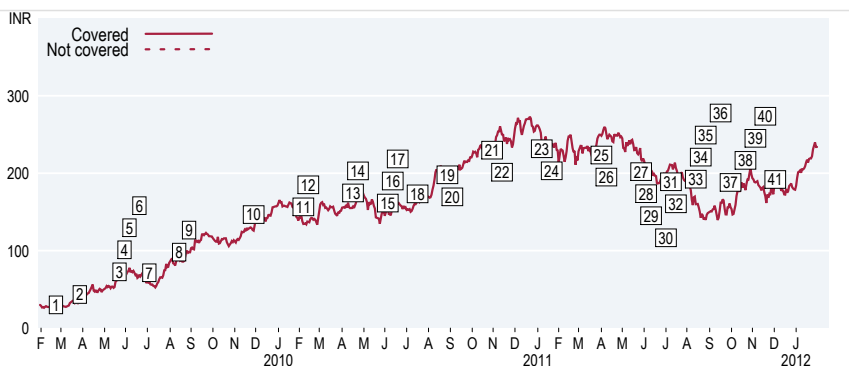
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Tata Motors Ltd (TAMO.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



Date	Rating	Target Price	Closing Price	
1	23-Feb-09	*4	-	26.75
2	27-Mar-09	*1	-	37.78
3	22-May-09	*2	-	69.15
4	29-May-09	*1	-	67.37
5	5-Jun-09	*3	-	77.84
6	19-Jun-09	*1	-	69.11
7	3-Jul-09	*3	-	60.16
8	14-Aug-09	*4	-	93.50
9	28-Aug-09	*5	-	98.09
10	27-Nov-09	*3	-	125.85
11	5-Feb-10	*4	-	134.44
12	12-Feb-10	*3	-	137.56
13	16-Apr-10	*4	-	156.95
14	23-Apr-10	*3	-	168.89

* Indicates change

Date	Rating	Target Price	Closing Price	
15	4-Jun-10	*2	-	154.32
16	11-Jun-10	*NR	-	152.98
17	18-Jun-10	*1	-	160.36
18	16-Jul-10	*2	-	166.48
19	27-Aug-10	*1	-	198.16
20	3-Sep-10	*2	-	202.75
21	29-Oct-10	*3	-	231.80
22	12-Nov-10	*2	-	249.25
23	7-Jan-11	*3	-	238.04
24	21-Jan-11	*2	-	237.48
25	1-Apr-11	*3	-	248.36
26	8-Apr-11	*2	-	250.66
27	27-May-11	*3	-	217.77
28	3-Jun-11	*1	-	204.76

Date	Rating	Target Price	Closing Price	
29	10-Jun-11	*2	-	203.92
30	1-Jul-11	*1	-	198.94
31	8-Jul-11	*2	-	210.80
32	15-Jul-11	*1	-	206.61
33	12-Aug-11	*2	-	160.00
34	19-Aug-11	*5	-	142.47
35	26-Aug-11	*3	-	139.70
36	16-Sep-11	*NR	-	161.85
37	30-Sep-11	*5	-	156.05
38	21-Oct-11	*4	-	178.15
39	4-Nov-11	*1	-	188.10
40	18-Nov-11	*2	-	170.30
41	2-Dec-11	*1	-	191.90

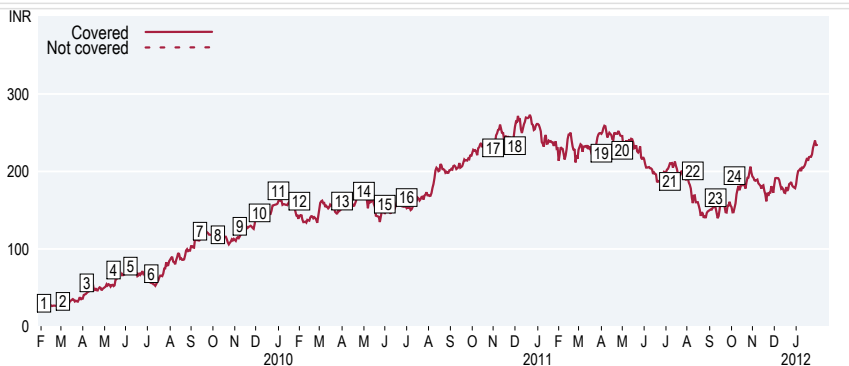
Rating/target price changes above reflect Eastern Standard Time

Tata Motors Ltd (TAMO.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu

Covered since May 23 2009



Date	Rating	Target Price	Closing Price	
1	5-Feb-09	*5	-	26.30
2	4-Mar-09	*8	-	28.62
3	7-Apr-09	*3	-	41.83
4	14-May-09	*2	-	52.03
5	8-Jun-09	*8	-	72.95
6	7-Jul-09	*3	-	55.97
7	14-Sep-09	*5	-	112.36
8	8-Oct-09	*10	-	117.48

* Indicates change

Date	Rating	Target Price	Closing Price	
9	9-Nov-09	*7	-	116.13
10	7-Dec-09	*6	-	140.81
11	1-Jan-10	*5	-	158.52
12	1-Feb-10	*7	-	143.81
13	1-Apr-10	*5	-	155.18
14	1-May-10	*10	-	174.57
15	1-Jun-10	*3	-	145.13
16	1-Jul-10	*1	-	152.59

Date	Rating	Target Price	Closing Price	
17	1-Nov-10	*4	-	234.07
18	1-Dec-10	*1	-	257.63
19	1-Apr-11	*2	-	248.58
20	1-May-11	*1	-	245.82
21	7-Jul-11	*3	-	210.59
22	9-Aug-11	*5	-	159.11
23	9-Sep-11	*6	-	152.72
24	6-Oct-11	*1	-	147.40

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<i>Data current as of 31 Dec 2011</i>	12 Month Rating			Relative Rating		
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<i>% of companies in each rating category that are investment banking clients</i>	45%	41%	40%	49%	43%	41%
Citi Investment Research & Analysis Quantitative World Radar Screen Model Coverage	30%	40%	30%			
<i>% of companies in each rating category that are investment banking clients</i>	22%	24%	21%			
Citi Investment Research & Analysis Quantitative Decision Tree Model Coverage	52%	0%	48%			
<i>% of companies in each rating category that are investment banking clients</i>	54%	0%	44%			
Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%			
<i>% of companies in each rating category that are investment banking clients</i>	21%	22%	20%			
Citi Investment Research & Analysis Australia Radar Model Coverage	41%	0%	59%			
<i>% of companies in each rating category that are investment banking clients</i>	22%	0%	17%			

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