

9 November 2012

**BUY**

TP: INR 320.00

▲ 12.7%

# Tata Motors

TTMT IN

## JLR momentum to remain strong – BUY

**We state a BUY on TTMT with a TP of Rs 320 (upside 13%). JLR's volume growth momentum is likely to continue in the next two years propped by new launches and growing strength in the China market (dealership to rise to 130 by year end from 100 currently), in our view. Also, the domestic CV market is close to its bottom – we see a revival in the next two years as rate cycle turns and favourable base effect comes into play. We expect revenue/PAT CAGR to be 15%/18% in FY13E-FY15E. Accumulate on dips.**

- ➔ **JLR margin surprises; standalone muted:** TTMT's Q2FY12 consolidated adj. PAT at Rs 20.8bn came in lower than estimates. JLR's EBITDA margin surprised at 14.8% (14.2% YoY/14.5% QoQ) on superior product and geography mix aided by a favourable forex movement. The standalone performance was muted with margin at 5.9% (vs. 7.2% YoY/7.3% QoQ), while dividend income (from JLR) boosted PAT.
- ➔ **JLR to drive growth:** We believe JLR would continue to show a strong growth in H2FY13 and drive TTMT's consolidated results on new launches – *New Range Rover* (in Q3), *F-Type* and *Sportsbrake* in 2013. Further, the Chinese market continues to show strong growth and with the rise in dealership to 130 by year end will pick pace. We have built in 358,000/394,000/447,000 volumes for JLR in FY13/FY14/FY15. We believe the domestic CV cycle is bottoming out and expect a revival in the next 3-6 months with interest rate cuts, pre-election spending and favourable base for FY14. We have built in a 9%-10% growth in domestic volumes (CV and passenger vehicles) in FY14E/FY15E.
- ➔ **BUY with a TP of Rs 320:** We expect revenue/PAT CAGR to be 15%/18% in FY13E-FY15E. We have valued TTMT on SoTP – standalone at 7.5x EV/EBITDA one year forward (Rs 76), JLR 3.5x EV/EBITDA one year forward (Rs 209). Including the value of other subsidiaries (Rs 35), our TP is Rs 320 (upside 13%). Recommend BUY. In our view, accumulate on dips as the stock is likely to outperform in the medium term.

### Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	12,31,333	16,56,545	19,68,410	22,39,888	26,12,068
EBITDA (INR mln)	1,77,800	2,37,005	2,59,644	3,01,095	3,55,788
Adjusted net profit (INR mln)	90,426	1,40,986	1,15,545	1,37,230	1,61,807
Adjusted EPS (INR)	30.3	42.4	34.8	41.3	48.7
Adjusted EPS growth (%)	640.9	40.1	(18.0)	18.8	17.9
DPS (INR)	4.0	2.9	2.9	2.9	2.9
ROIC (%)	30.0	38.7	22.6	20.8	21.2
Adjusted ROAE (%)	66.1	53.9	30.1	27.5	25.4
Adjusted P/E (x)	8.2	6.5	8.2	6.9	5.8
EV/EBITDA (x)	5.6	4.4	4.5	3.8	3.1
P/BV (x)	4.1	2.8	2.2	1.7	1.3

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (08 Nov 12)

INR 283.95

MARKET CAP

INR 9,43,608 mln

USD 17,354 mln

SHARES O/S

3,323.1 mln

FREE FLOAT

65.3%

3M AVG DAILY VOLUME./VALUE

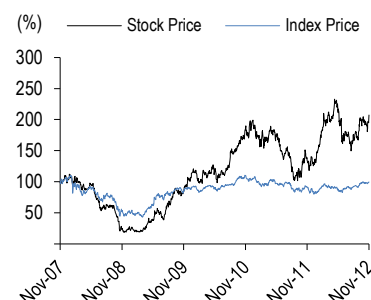
10.4 mln/ USD 49.8 mln

52 WK HIGH

INR 319.25

52 WK LOW

INR 161.55





## Results highlights

Fig 1 - Actual vs. estimated performance

(Rs mn)	Actual	Consensus	% Variance
Net sales	4,34,029	4,39,697	(1.3)
EBITDA	53,336	55,993	(4.7)
EBITDA Margin (%)	12.3	12.7	-45bps
PAT	20,818	23,878	(12.8)
EPS	6.3	7.2	(12.8)

Source: Company, RCML Research

Result below estimates on consolidated basis

Fig 2 - Quarterly performance – TTMT consolidated

(Rs mn)	Q2FY13	Q2FY12	% Chg YoY	Q1FY13	% Chg QoQ
Net sales	4,34,029	3,61,975	19.9	4,33,236	0.2
EBITDA	53,336	45,039	18.4	57,549	-7.3
EBITDA Margin	12.3	12.4	-15bps	13.3	-99bps
Adj. PAT	20,818	21,846	-4.7	25,533	-18.5
EPS	6.3	6.6	-4.7	7.7	-18.5

Source: Company, RCML Research

Result below estimates on consolidated basis on lower standalone results, while JLR outshines

Fig 3 - Quarterly performance – TTMT standalone

(Rs mn)	Q2FY13	Q2FY12	% Chg YoY	Q1FY13	% Chg QoQ
Net sales	1,24,814	1,29,538	-3.6	1,05,864	17.9
EBITDA	7,335	9,331	-21.4	7,744	-5.3
EBITDA Margin	5.9	7.2	-133bps	7.3	-144bps
Adj. PAT	10,455	3,045	243.4	3,180	228.8
EPS	3.1	0.9	243.4	1.0	228.8
Volumes	2,23,665	2,11,400	5.8	1,90,683	17.3
Net Realisation	5,58,041	6,12,763	(8.9)	5,55,184	0.5

Source: Company, RCML Research

Standalone results disappointed on the margin front

Fig 4 - Quarterly performance – JLR

(£ mn)	Q2FY13	Q2FY12	% Chg YoY	Q1FY13	% Chg QoQ
Net sales	3,288	2,915	12.8	3,638	-9.6
EBITDA	486	413	17.8	527	-7.8
EBITDA Margin	14.8	14.2	63bps	14.5	30bps
Adj. PAT	305	238	28.2	236	29.2

Source: Company, RCML Research

JLR margins surprised at 14.8%, benefitting from superior product and geography mix aided by a favourable forex movement

- JLR's production in Q2 got impacted from a two-week routine shutdown. Waiting period for *Evoque* has come down from 6-9 months at the time of the launch to four months now.
- RM cost in the JLR business moderated in the quarter on lower input cost, favourable currency, and further aided by model mix and geographical mix.
- JLR remains on track as regards sales in China. TTMT currently has ~100 dealers and plans to take the number up to 130 by the year-end. New launches are expected to boost growth as the Premium segment continues to grow better in China.
- In the standalone business, capacity for passenger cars is running at ~50% of utilization, while CV capacity is running at 70-75% utilization.
- Standalone capex guided at an average Rs 30bn-Rs 35bn annually in the next 2 years.

**BUY**

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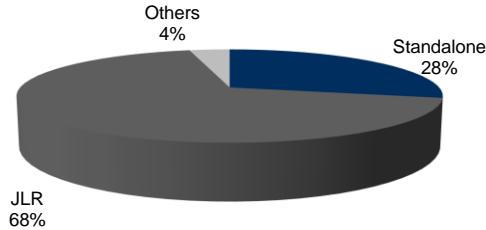
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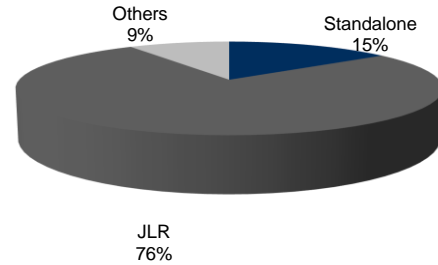
## JLR continues to steal the show

**Fig 5 - JLR to contribute 68% to revenues in FY13**



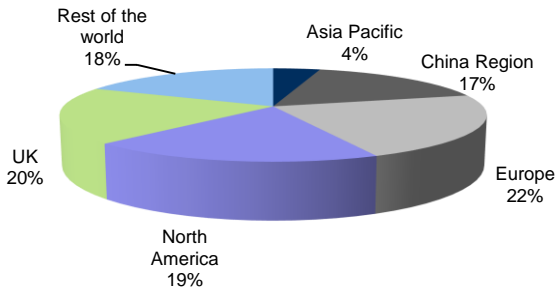
Source: Company, RCML Research

**Fig 6 - JLR to contribute 76% to revenues in FY13**



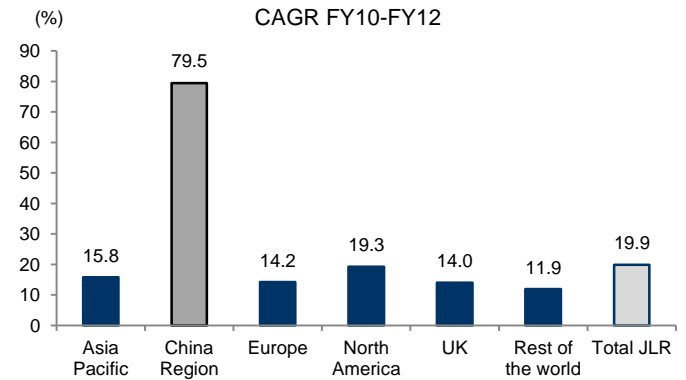
Source: Company, RCML Research

**Fig 7 - Geographical mix for JLR sales (retail-FY12)**



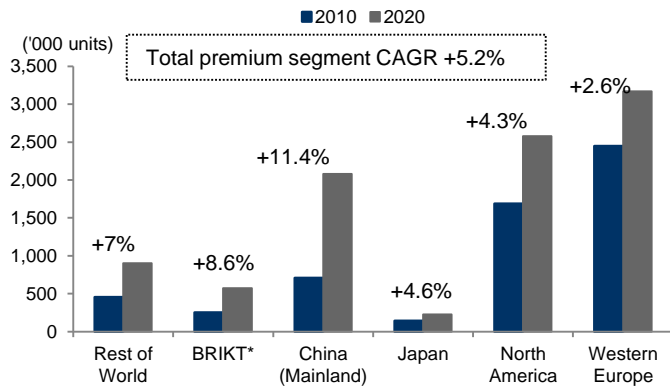
Source: Company, RCML Research

**Fig 8 - JLR volumes in China grew at a stellar pace**



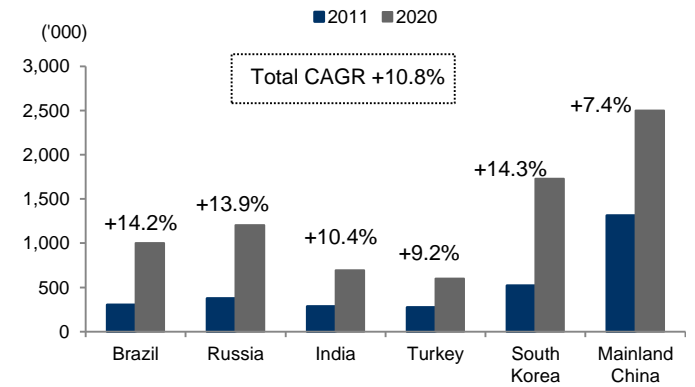
Source: Company, RCML Research

**Fig 9 - Emerging markets (especially China) would continue to grow at healthy pace in premium segment...**



Source: BMW, Global Insight, RCML Research, #BRIKT: Brazil, Russia, India, Korea, Turkey

**Fig 10 - ...as affordability grows in these markets (number of millionaires in the markets)**



Source: BMW, Global Insight, RCML Research

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**Tata Motors**

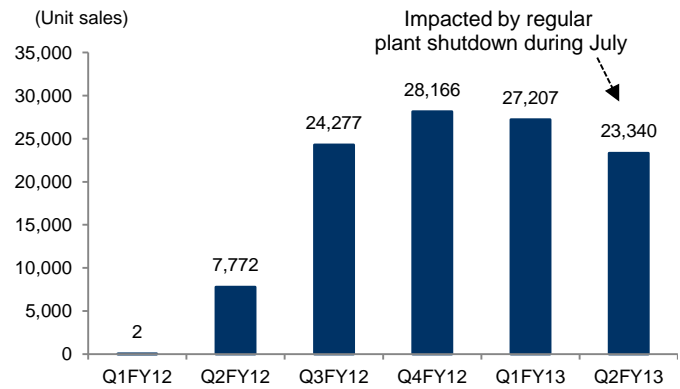
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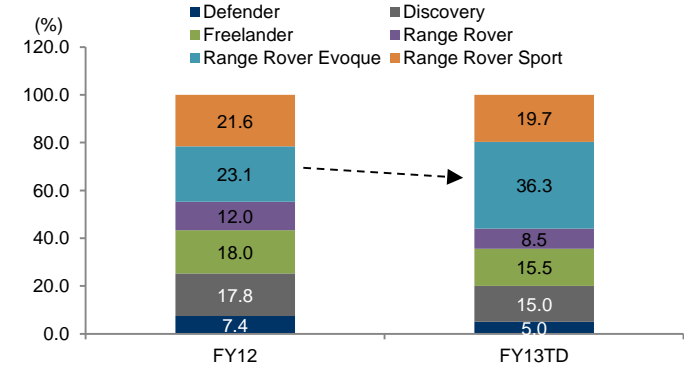
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**Fig 11 - Sales for JLR's new Evoque smartly picked up over past quarters...**



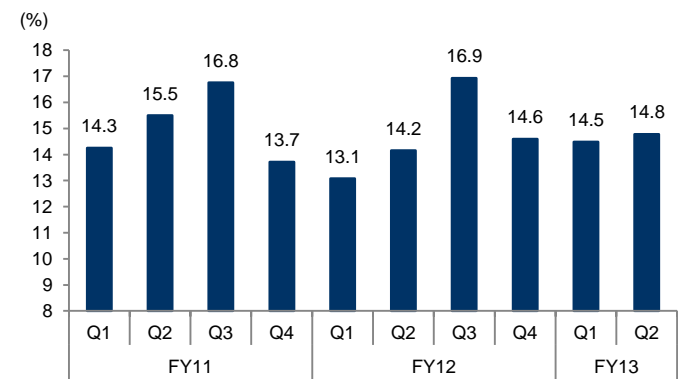
Source: Company, RCML Research

**Fig 12 - ...as Evoque's contribution to total Range Rover volumes increased**



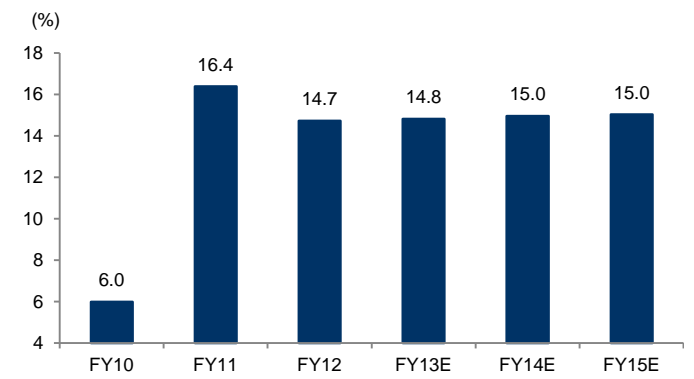
Source: Company, RCML Research

**Fig 13 - EBITDA margin trend for JLR**



Source: Company, RCML Research

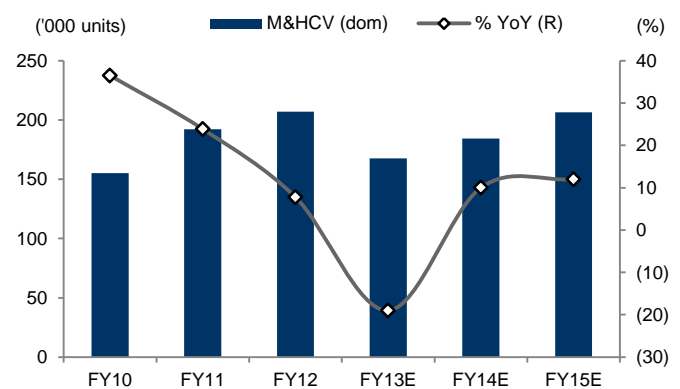
**Fig 14 - Margin to improve marginally over FY13-FY15**



Source: Company, RCML Research

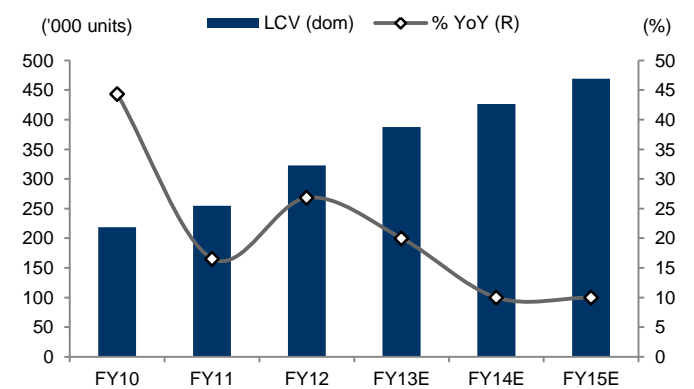
## Standalone business – Currently a drag

**Fig 15 - TTMT's MHCV to witness a de-growth in FY13...**



Source: Company, RCML Research

**Fig 16 - ... while LCV to grow at healthy pace**



Source: Company, RCML Research

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# Tata Motors

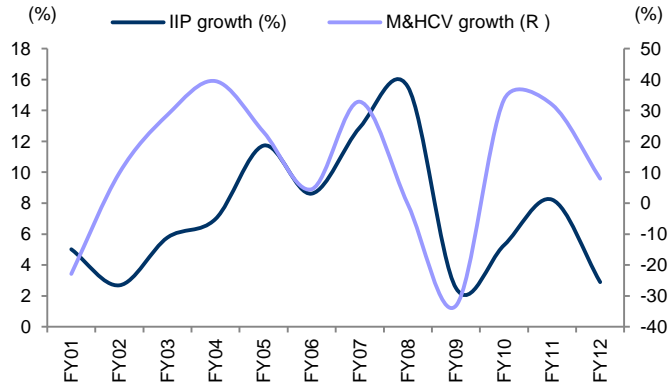
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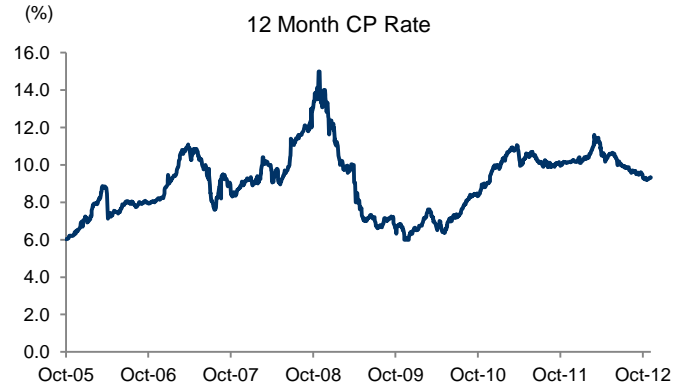
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**Fig 17 - Overall MHCV growth sluggish, in tandem with slowdown in industrial activity**



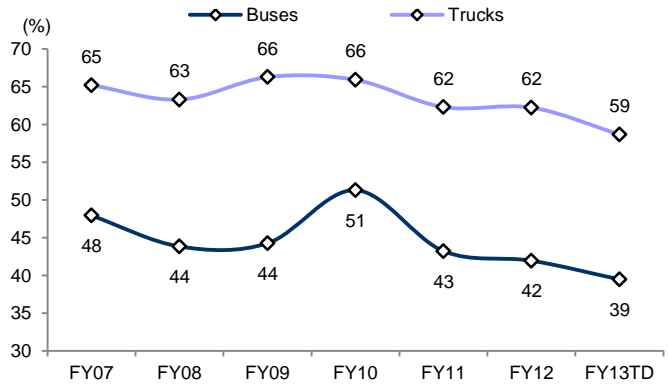
Source: Company, RCML Research

**Fig 18 - Interest rate peaking; we see a revival in demand growth in the next two years as rate cycle turns**



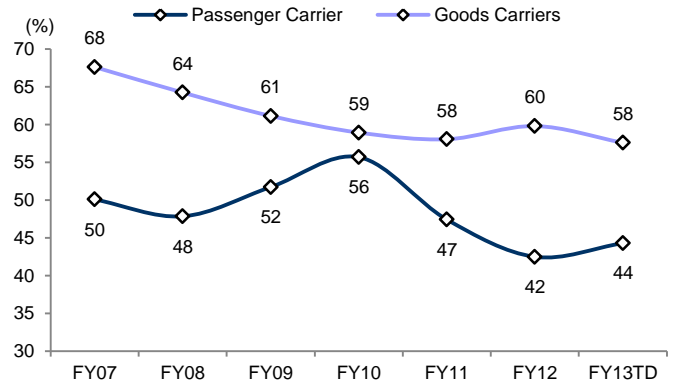
Source: Company, RCML Research

**Fig 19 - TTMT witnessing a market share dip in MHCV on intensifying competition...**



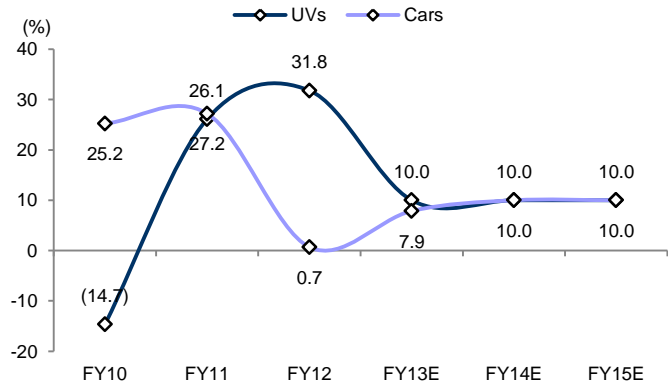
Source: Company, RCML Research

**Fig 20 - ... and the trend same in LCVs**



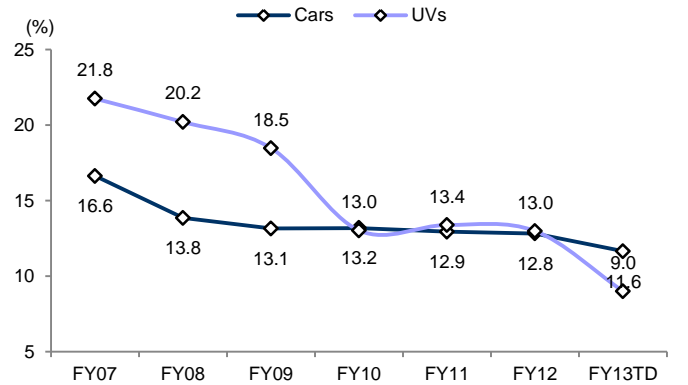
Source: Company, RCML Research

**Fig 21 - Passenger vehicle segment also under pressure....**



Source: Company, RCML Research

**Fig 22 - ....resulting in a dip in market share**



Source: SIAM, RCML Research



## Valuations and assumptions

Fig 23 - Estimates for TTMT – Standalone

	FY12	FY13E	FY14E	FY15E
Domestic	8,60,823	9,11,952	10,02,291	11,05,310
Export	63,078	57,774	65,591	75,029
Total Volumes	9,23,901	9,69,726	10,67,881	11,80,339
% Growth	12.1	5.0	10.1	10.5
Net Realisation	5,83,733	5,76,139	5,93,354	6,11,072
Revenue	5,43,066	5,62,488	6,37,613	7,25,452
EBITDA	44,118	38,729	47,167	56,854
EBITDA Margin (%)	8.1	6.9	7.4	7.8
PAT	13,722	23,847	28,401	35,611

Source: Company, RCML Research

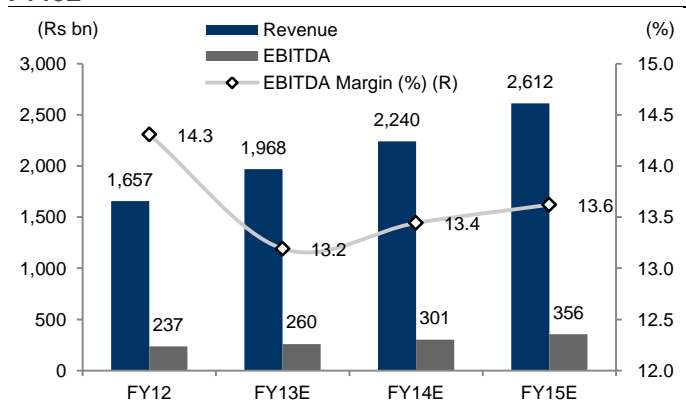
Fig 24 - Estimates for JLR

	FY12	FY13E	FY14E	FY15E
Jaguar	54,039	48,510	51,836	77,390
Land Rover	2,60,394	3,09,608	3,41,782	3,70,001
Total Volumes	3,14,433	3,58,118	3,93,618	4,47,390
% Growth	29.1	13.9	9.9	13.7
Realisation	42,972	43,831	45,584	47,408
Revenue (£ mn)	13,512	15,697	17,943	21,210
EBITDA (£ mn)	1,989	2,321	2,679	3,182
EBITDA Margin (%)	14.7	14.8	14.9	15.0
PAT (£ mn)	1,481	1,259	1,463	1,672

Source: Company, RCML Research

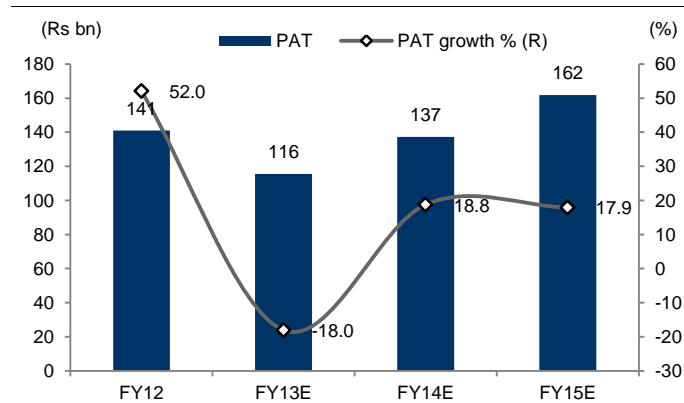
We expect a revenue CAGR of 15% through FY13E-FY15E for TTMT led by growth in JLR. EBITDA margins are likely to improve marginally through the same period. A higher topline and better margins would aid a PAT CAGR of 18% over FY13E-FY15E.

Fig 25 - Revenue/EBITDA CAGR of 15%/17% over FY13E-FY15E



Source: Company, RCML Research

Fig 26 - PAT CAGR at 18% over FY13E-FY15E



Source: Company, RCML Research

**BUY**

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# Tata Motors

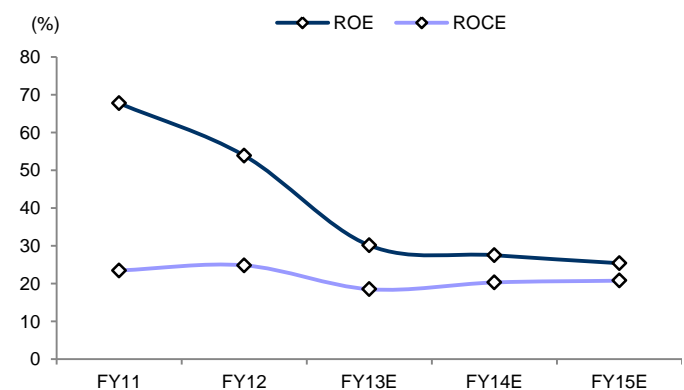
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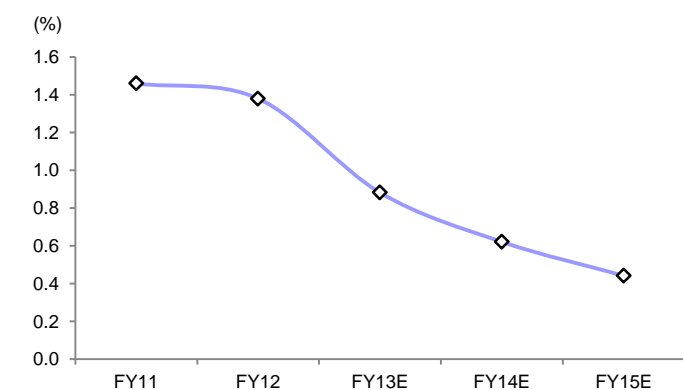
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**Fig 27 - ROE expected to remain at a healthy 25%-30%...**

Source: Company, RCML Research

**Fig 28 - ... and D/E would improve significantly**

Source: Company, RCML Research

We value TTMT on SoTP – standalone at 7.5x EV/EBITDA one-year forward (Rs 76), JLR on 3.5x EV/EBITDA one-year forward (Rs 209). Including the values of other subsidiaries (Rs 35), we arrive at a TP of Rs 320 (an upside of 13%). We state a BUY – Buy on any weakness.

**Fig 29 - SOTP valuation**

	Valuation basis	Value/sh
Tata Motors (Core Business)	7.5x EV/EBITDA	76
JLR	3.5x EV/EBITDA (adj. for R&D expenses capitalization)	209
Tata Motors Std+ JLR		284
Other Holdings & Subsidiaries		
Tata Daewoo CV Ltd., Korea	P/E - 12x FY14E EPS	7
TML Drivelines	P/E - 12x FY14E EPS	9
Tata Technologies Ltd	P/E - 12x FY14E EPS	5
Tata Motors Finance	P/B - 1.5x FY12xP/BV	8
Telcon	Based on past deal value	7
Total of Subs & Holdings		35
Total Value per share		320

Source: Company, RCML Research

## Risks to rating

- Intensifying competition and higher-than-expected loss in market share in the CV segment for the standalone business
- Any significant change in international trade policies, impacting sales at JLR
- Any major roadblock in new launches for JLR or milder-than-expected volume response
- Above-expected raw material cost or adverse currency movement impacting margins

**BUY**

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**Tata Motors**

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**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	31.1	40.7	34.8	41.3	48.7
Adjusted EPS	30.3	42.4	34.8	41.3	48.7
DPS	4.0	2.9	2.9	2.9	2.9
BVPS	60.4	99.8	131.2	169.2	214.6

**Valuation Ratios**

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	0.8	0.6	0.6	0.5	0.4
EV/EBITDA	5.6	4.4	4.5	3.8	3.1
Adjusted P/E	8.2	6.5	8.2	6.9	5.8
P/BV	4.1	2.8	2.2	1.7	1.3

**Financial Ratios**

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	14.4	14.3	13.2	13.4	13.6
EBIT margin	9.9	10.1	8.9	9.1	9.3
Adjusted profit margin	7.3	8.5	5.9	6.1	6.2
Adjusted ROAE	66.1	53.9	30.1	27.5	25.4
ROCE	22.4	26.8	17.1	18.0	18.6
<b>YoY Growth (%)</b>					
Revenue	33.0	34.5	18.8	13.8	16.6
EBITDA	105.4	33.3	9.6	16.0	18.2
Adjusted EPS	640.9	40.1	(18.0)	18.8	17.9
Invested capital	18.6	22.6	42.6	15.7	12.8
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	20	18	17	17	17
Inventory (days)	59	54	51	47	46
Payables (days)	85	81	76	70	70
Current ratio (x)	0.9	0.9	0.8	0.9	0.9
Quick ratio (x)	0.6	0.7	0.6	0.6	0.6
<b>Turnover &amp; Leverage Ratios (x)</b>					
Gross asset turnover	1.7	1.8	1.8	1.8	1.8
Total asset turnover	1.2	1.2	1.4	1.4	1.5
Net interest coverage ratio	5.1	5.6	5.5	6.2	7.0
Adjusted debt/equity	1.7	1.2	0.8	0.6	0.4

**DuPont Analysis**

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	88.6	98.1	75.0	74.8	73.2
Interest burden (PBT/EBIT)	83.9	86.1	88.1	89.7	91.2
EBIT margin (EBIT/Revenue)	9.9	10.1	8.9	9.1	9.3
Asset turnover (Revenue/Avg TA)	133.5	136.7	138.7	151.2	158.0
Leverage (Avg TA/Avg equities)	674.0	463.3	369.7	296.8	259.3
Adjusted ROAE	66.1	53.9	30.1	27.5	25.4



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**Income Statement**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Total revenue</b>	<b>12,31,333</b>	<b>16,56,545</b>	<b>19,68,410</b>	<b>22,39,888</b>	<b>26,12,068</b>
EBITDA	1,77,800	2,37,005	2,59,644	3,01,095	3,55,788
EBIT	1,21,620	1,66,859	1,74,910	2,04,504	2,42,463
Net interest income/(expenses)	(23,853)	(29,822)	(31,906)	(33,022)	(34,549)
Other income/(expenses)	4,295	6,618	11,049	12,042	13,141
Exceptional items	0	0	0	0	0
EBT	1,02,062	1,43,654	1,54,053	1,83,524	2,21,055
Income taxes	(12,164)	400	(39,555)	(47,307)	(60,192)
Extraordinary items	2,310	(8,315)	0	0	0
Min. int./Inc. from associates	528	(574)	1,047	1,012	944
<b>Reported net profit</b>	<b>92,736</b>	<b>1,35,165</b>	<b>1,15,545</b>	<b>1,37,230</b>	<b>1,61,807</b>
Adjustments	(2,310)	5,821	0	0	0
<b>Adjusted net profit</b>	<b>90,426</b>	<b>1,40,986</b>	<b>1,15,545</b>	<b>1,37,230</b>	<b>1,61,807</b>

**Balance Sheet**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	2,66,848	3,66,863	3,48,440	3,98,038	4,65,020
Other current liabilities	1,04,299	1,90,698	1,11,561	1,17,139	1,22,996
Provisions	98,692	1,28,418	1,25,568	1,26,568	1,27,568
Debt funds	3,27,914	3,87,041	3,55,950	3,24,450	2,92,950
Other liabilities	2,466	27,657	28,011	28,399	28,922
Equity capital	6,377	6,347	6,347	6,347	6,347
Reserves & surplus	1,85,338	3,25,152	4,29,677	5,55,887	7,06,674
Shareholders' fund	1,91,715	3,31,499	4,36,024	5,62,234	7,13,021
<b>Total liabilities and equities</b>	<b>9,91,933</b>	<b>14,32,176</b>	<b>14,05,553</b>	<b>15,56,828</b>	<b>17,50,477</b>
Cash and cash eq.	1,09,479	1,82,381	49,886	34,335	48,925
Accounts receivables	68,774	82,368	91,679	1,04,324	1,21,658
Inventories	1,40,705	1,82,160	1,77,775	2,03,081	2,37,255
Other current assets	1,91,372	2,59,023	2,55,122	2,89,057	3,35,579
Investments	25,443	89,177	93,458	97,969	1,02,723
Net fixed assets	3,17,643	4,02,667	5,02,733	5,92,662	6,68,438
CWIP	1,17,289	1,59,458	1,59,458	1,59,458	1,59,458
Intangible assets	35,848	40,937	40,937	40,937	40,937
Deferred tax assets, net	(14,638)	23,743	24,243	24,743	25,243
Other assets	19	10,261	10,261	10,261	10,261
<b>Total assets</b>	<b>9,91,933</b>	<b>14,32,176</b>	<b>14,05,553</b>	<b>15,56,828</b>	<b>17,50,477</b>

**Cash Flow Statement**

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	1,48,916	2,05,311	2,00,279	2,33,820	2,75,132
Interest expenses	19,781	34,504	31,906	33,022	34,549
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(40,484)	(22,801)	(97,586)	(15,708)	(24,193)
Other operating cash flows	(15,812)	(33,171)	(147)	(112)	24
<b>Cash flow from operations</b>	<b>1,12,402</b>	<b>1,83,843</b>	<b>1,34,453</b>	<b>2,51,022</b>	<b>2,85,512</b>
Capital expenditures	(81,240)	(1,38,756)	(1,84,800)	(1,86,520)	(1,89,100)
Change in investments	(2,028)	(60,775)	(4,281)	(4,511)	(4,754)
Other investing cash flows	12,611	(5,898)	0	0	0
<b>Cash flow from investing</b>	<b>(70,657)</b>	<b>(2,05,429)</b>	<b>(1,89,081)</b>	<b>(1,91,031)</b>	<b>(1,93,854)</b>
Equities issued	32,529	0	0	0	0
Debt raised/repaid	(11,109)	1,19,315	(31,091)	(31,500)	(31,500)
Interest expenses	(24,691)	(33,737)	(31,906)	(33,022)	(34,549)
Dividends paid	(10,195)	(15,031)	(14,870)	(11,020)	(11,020)
Other financing cash flows	15,901	39,966	0	0	0
<b>Cash flow from financing</b>	<b>(14,013)</b>	<b>99,723</b>	<b>(77,867)</b>	<b>(75,542)</b>	<b>(77,069)</b>
<b>Changes in cash and cash eq</b>	<b>27,732</b>	<b>78,138</b>	<b>(1,32,495)</b>	<b>(15,551)</b>	<b>14,589</b>
<b>Closing cash and cash eq</b>	<b>1,09,479</b>	<b>1,82,381</b>	<b>49,886</b>	<b>34,335</b>	<b>48,925</b>

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