

Equities

15 November 2011 | 18 pages

Tata Motors (TAMO.BO)

2QFY12 – Some Hits, Some Misses

- Company Update
- Target Price Change
- Estimate Change

■ **Domestic results disappointed** — With parent reported PAT of ~Rs1bn. Adjusted for the FX losses (~Rs2.9bn), PAT was above estimates. The quality of earnings disappointed though, as the beat was driven by lower interest expense / tax write back. At the operating level, EBITDA was Rs9.33bn (7.2%, down 120bps Y/Y), missing estimates by 7%. We reckon a mix of cost pressures, heightened marketing spends on the car business and deteriorating pricing in the car business impacted margins. Ahead, we expect some sequential improvement in margins given rebound in retail volumes of the Nano, but believe the near-term environment will remain very challenging both from a competitive perspective and a volume growth perspective.

■ **JLR's operating results were in line** — with EBITDA of £437m (~15%). PAT of £238m was 9% below estimates – reflecting higher tax levels in the NSCs. ASPs were ~£43,000/vehicle – down 1.5% Q/Q – reflecting Fx headwinds, despite a rich product/market mix. Fx impacted EBITDA margins by ~1.3%.

■ **Conference call takeaways** — Mgmt sounded a bit cautious on the domestic business, noted that initiatives on dealer networks, marketing and publicity will continue to drag down domestic EBITDA margins. We thought JLR mgmt sounded more optimistic – no volume guidance provided, but Evoque bookings now at ~30k (20k earlier). Mgmt noted that J volumes have begun to recover, post the launch of the new 2.2l XF, while LR volumes remain strong. Capex reaffirmed at £1.5bn over FY12. Freelander volumes' supply impacted due to Evoque's production ramp-up.

■ **Balance sheet – debt levels remain high** — Gross debt was Rs439bn – up from Rs328bn end FY11. Cash balances remain healthy – net auto debt of Rs160bn end 2Q vs. Rs13.1bn end FY11. Mgmt is attempting to dollarize debt, replacing high cost INR debt with lower cost Fx debt.

■ **Paring estimates** — We cut EBITDA forecasts for FY12-14 for parent (no changes to JLR forecasts) – by 5-10% – reflecting marketing spends / cost pressures. **Maintain Buy**; value TTMT on SOTP – Rs 111 / 87 per share for parent / JLR respectively.

Buy	1
Price (14 Nov 11)	Rs177.90
Target price	Rs215.00
	from Rs228.20
Expected share price return	20.9%
Expected dividend yield	1.1%
Expected total return	21.9%
Market Cap	Rs523,709M
	US\$10,473M

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	33.7	6.2	14.7	1.7
2011A	90,695	28.44	439.2	6.3	3.0	66.3	2.2
2012E	85,810	26.05	-8.4	6.8	2.1	37.1	1.1
2013E	94,921	28.81	10.6	6.2	1.6	30.4	1.6
2014E	112,771	34.23	18.8	5.2	1.3	27.9	2.1

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	33.7	6.3	6.8	6.2	5.2
EV/EBITDA adjusted (x)	7.9	4.7	4.6	4.1	3.6
P/BV (x)	6.2	3.0	2.1	1.6	1.3
Dividend yield (%)	1.7	2.2	1.1	1.6	2.1
Per Share Data (Rs)					
EPS adjusted	5.28	28.44	26.05	28.81	34.23
EPS reported	9.01	29.08	26.05	28.81	34.23
BVPS	28.76	60.13	84.80	111.23	142.31
DPS	3.01	4.00	1.93	2.88	3.70
Profit & Loss (RsM)					
Net sales	925,193	1,231,333	1,370,082	1,529,959	1,719,084
Operating expenses	-877,922	-1,100,088	-1,243,642	-1,388,254	-1,556,462
EBIT	47,270	131,245	126,440	141,705	162,621
Net interest expense	-22,397	-20,454	-19,308	-19,536	-19,859
Non-operating/exceptionals	10,353	-6,419	-8,539	-11,840	-11,600
Pre-tax profit	35,226	104,372	98,593	110,328	131,163
Tax	-10,058	-12,164	-12,324	-14,894	-17,707
Extraord./Min.Int./Pref.div.	542	528	-459	-513	-685
Reported net income	25,711	92,736	85,810	94,921	112,771
Adjusted earnings	15,051	90,695	85,810	94,921	112,771
Adjusted EBITDA	86,142	177,800	178,319	198,829	228,345
Growth Rates (%)					
Sales	261.0	33.1	11.3	11.7	12.4
EBIT adjusted	471.8	177.6	-3.7	12.1	14.8
EBITDA adjusted	406.3	106.4	0.3	11.5	14.8
EPS adjusted	50.0	439.2	-8.4	10.6	18.8
Cash Flow (RsM)					
Operating cash flow	122,243	130,105	128,055	139,169	174,655
Depreciation/amortization	38,871	46,555	51,879	57,124	65,724
Net working capital	43,790	-10,377	-9,634	-12,876	-3,840
Investing cash flow	-73,261	-101,294	-122,714	-137,714	-139,311
Capital expenditure	-66,601	-96,423	-122,714	-137,714	-139,311
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	-25,706	-24,076	-26,512	-1,412	-36,469
Borrowings	2,185	-24,010	-12,237	19,858	-9,110
Dividends paid	-9,919	-14,670	-7,137	-10,635	-13,680
Change in cash	38,196	7,045	-21,170	44	-1,126
Balance Sheet (RsM)					
Total assets	866,755	1,006,552	1,096,167	1,233,613	1,374,438
Cash & cash equivalent	87,433	109,479	95,906	107,097	120,336
Accounts receivable	71,912	68,774	76,038	84,670	94,903
Net fixed assets	385,063	434,931	505,766	586,356	659,943
Total liabilities	782,580	812,390	822,873	875,521	916,569
Accounts payable	340,773	371,147	401,626	432,095	478,887
Total Debt	351,924	327,914	315,677	335,535	326,426
Shareholders' funds	84,200	194,181	273,313	358,111	457,887
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.3	14.4	13.0	13.0	13.3
ROE adjusted	14.7	66.3	37.1	30.4	27.9
ROIC adjusted	13.3	26.0	21.3	20.4	20.4
Net debt to equity	314.1	112.5	80.4	63.8	45.0
Total debt to capital	80.7	62.8	53.6	48.4	41.6

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2Q12: Some Hits, Some Misses

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

1) The domestic business remains difficult to forecast – in 1Q, marketing spends ballooned, gross margins had positively surprised – this Q witnessed a reversal, with material expenses rising 470bps Q/Q, whilst SGA dipped 360 bps Q/Q. Over 1H, material costs have averaged ~71.6% of net sales, whilst SGA has been 15.3% of net revenues. 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 in FY12. Our cut in our FY12-14 domestic EBITDA (by ~5-10%) 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.

2) From JLR's perspective, ASPs declined slightly Q/Q, but remained high on Y/Y basis. Mgmt attributes this to mix and the China effect – this Q China was ~16% of volumes, vs. 13% in 4Q11. Currency eroded ~130bps in 2Q, vs. ~200bps in 1Q. Our JLR estimates remain unchanged for now, given that we had tweaked ASPs upwards post 1Q estimates, whilst also adjusting volumes downwards. Extrapolating 1H, JLR appears well positioned to meet our FY12 EBITDA forecast of 1.72bn GDP.

3) For JLR, we've retained our current volume estimates and note that there is a slight upward bias to our forecasts, especially if 4Q is strong. But given the current environment especially in markets like EU / US, we've not changed our volume forecasts (for now). We were surprised by the weak offtake (1% Y/Y growth) for JLR in the UK market (home brands with very strong pull and appeal). In 1Q12, LR volumes had been impacted by shortfall of diesel engines for the Freelander and the Discovery; 2Q appears to be a continuation of a weak trend. Other negative surprises (from a regional sales perspective) were US volumes being flat Y/Y. Positive surprises were Europe volumes (+5%) and RoW (+36%). It is noteworthy that the retail sales mix is now broad-basing – China + RoW now account for ~35% of retail volumes vs. 25% 1 year ago.

4) From a balance sheet perspective, the build-up in gross debt levels to ~Rs439bn end 2Q (vs Rs328bn 4Q11) also needs careful monitoring. The broad break up of debt is as follows: Rs196bn in TTMT, Rs11bn (estimated) in Tata Motors Finance, £1.54bn in JLR (= Rs117bn @ Rs76 / 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. We think mgmt is being prudent in keeping cash aside, given the macro environment; though 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 mitigating factor was the fact that despite JLR's capex of £381m in the Q, it generated free cash flow of £119m in the Q vs. £114m in 1Q.

Figure 1. Tata Motors: Earnings Revision Table

	Old			New			Change		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Standalone									
Volumes									
MHCV	229,032	251,936	267,052	229,032	251,936	267,052	0.0%	0.0%	0.0%
LCV	351,927	416,116	478,534	351,927	416,116	478,534	0.0%	0.0%	0.0%
UVs	45,915	52,802	59,138	45,915	52,802	59,138	0.0%	0.0%	0.0%
Cars (ex Nano)	144,734	166,444	195,004	144,734	166,444	195,004	0.0%	0.0%	0.0%
Nano	100,000	120,000	140,000	100,000	120,000	140,000	0.0%	0.0%	0.0%
Total	871,609	1,007,298	1,139,728	871,609	1,007,298	1,139,728	0.0%	0.0%	0.0%
Net Sales (Rs mn)	519,032	603,581	686,485	512,760	596,305	678,089	-1.2%	-1.2%	-1.2%
EBITDA (Rs mn)	44,820	57,847	68,575	42,751	52,248	62,435	-4.6%	-9.7%	-9.0%
EBITDA Margin (%)	8.6%	9.6%	10.0%	8.3%	8.8%	9.2%			
PBT	18,477	30,047	37,588	16,408	24,449	31,447	-11.2%	-18.6%	-16.3%
Tax	4,619	7,512	9,397	4,102	6,112	7,862	-11.2%	-18.6%	-16.3%
PAT (Rs mn)	13,857	22,536	28,191	12,306	18,337	23,586	-11.2%	-18.6%	-16.3%
Consolidated									
Net Sales	1,376,355	1,537,236	1,727,480	1,370,082	1,529,959	1,719,084	-0.5%	-0.5%	-0.5%
EBITDA	180,388	204,427	234,486	178,319	198,829	228,345	-1.1%	-2.7%	-2.6%
EBITDA Margin (%)	13.1%	13.3%	13.6%	13.0%	13.0%	13.3%			
PBT	100,701	116,079	137,601	98,593	110,328	131,163	-2.1%	-5.0%	-4.7%
Tax	12,588	15,671	18,576	12,324	14,894	17,707	-2.1%	-5.0%	-4.7%
Recurring PAT	87,654	99,896	118,340	85,810	94,921	112,771	-2.1%	-5.0%	-4.7%

Source: Citi Investment Research and Analysis estimates

Figure 2. Tata Motors: SOTP Valuation

SOTP	Methodology	Equity Value	Diluted No of Shares	Target Price (Rs/share)
Base Business	7x Mar13 EV/EBITDA	52,248	3,294	Rs 111
Subsidiary				
Tata Daewoo (100%)	8x Mar 13e EPS	2,001	3,294	Rs 5
Tata Tech (81.55%)	15x Mar 13e EPS	786	3,294	Rs 4
Telcon (40%)	15x Mar 13e EPS	908	3,294	Rs 4
HVTL (85%)	8x Mar 13e EPS	861	3,294	Rs 2
HVAL (85%)	8x Mar 13e EPS	1,037	3,294	Rs 3
Tata Motor Finance (100%)	1x Mar11 book	13,703	3,294	Rs 4
Total Subsidiary at 20% discount				Rs 17
JLR	3x Mar 13 EV/EBITDA	131,594	3,294	Rs 120
Less: Net Debt (adjusted for vehicle finance loan portfolio)		108,438	3,294	Rs 33
Total Value				Rs 215

Source: Citi Investment Research and Analysis

Figure 3. Tata Motors: Quarterly Volume Trends

	2QFY11	1QFY12	2QFY12	% Chg YoY	% Chg QoQ
H / MCVs	51,320	49,115	54,439	6.1%	10.8%
LCVs	67,645	77,033	89,718	32.6%	16.5%
Total Commercial Vehicles	118,965	126,148	144,157	21.2%	14.3%
UV s	9,733	10,627	12,329	26.7%	16.0%
Cars	69,707	56,263	50,137	-28.1%	-10.9%
Total Passenger Vehicles	79,440	66,890	62,466	-21.4%	-6.6%
Total Vehicles	198,405	193,038	206,623	4.1%	7.0%

Source: Company, Citi Investment Research and Analysis

Figure 4. Tata Motors: Standalone 2QFY12 Results (Rs mn)

	2QFY11	1QFY12	2QFY12	% Chg YoY	% Chg QoQ	CIRA Comments
Gross Sales	124,749	129,253	140,967			
Less: Excise duty	9,708	10,274	11,429			
Net sales	115,041	118,979	129,538	12.6%	8.9%	Marginally (~1%) above estimates
Decrease/(Increase) in Stocks	(1,397)	(5,373)	(319)			
Raw Materials	83,040	87,685	96,080	17.3%	16.3%	~7% above estimates. Mgmt does not expect any significant abatement in raw material cost pressures
Staff costs	5,810	6,211	6,829	17.5%	9.9%	~8% above estimates
Other Expenses	16,413	20,470	17,617	7.3%	-13.9%	22% below estimates
Total Expenditure	103,865	108,992	120,207	15.7%	10.3%	1% above estimates
EBITDA	11,176	9,986	9,331	-16.5%	-6.6%	~7% below estimates
Forex gains / (losses)	38	24	(2,942)			Exchange loss on revaluation of foreign currency debt
Product Development	230	321	602	162.4%	87.8%	
Interest	3,072	2,532	2,121	-30.9%	-16.2%	
Other income	775	1,155	568	-26.8%	-50.8%	
EBDT	8,687	8,314	4,234	-51.3%	-49.1%	
Depreciation & Amortization	3,316	3,651	3,869	16.7%	6.0%	~6% above estimates
PBT	5,371	4,663	365	-93.2%	-92.2%	
Exceptionals						
Tax	1,045	650	(655)			
PAT	4,326	4,013	1,020	-76.4%	-74.6%	
PAT (pre exceptionals)	4,326	4,013	1,020	-76.4%	-74.6%	~65% below estimates
Profit Margins						
EBITDA margins (%) net sales	9.7	8.4	7.2			
EBIT (%)	6.3	4.9	3.9			
EBDT (%)	7.0	6.4	3.0			
Pre tax margins (%)	4.3	3.6	0.3			
Tax / PBT (%)	19.5	13.9	(179.5)			
Net profit margins (%)	3.8	3.4	0.8			
Cost ratios (net sales)						
Raw materials / sales	71.0	69.2	73.9			
Staff costs / sales	5.1	5.2	5.3			
Other expenses / sales	14.3	17.2	13.6			

Source: Company, Citi Investment Research and Analysis

Figure 5. Tata Motors: Consolidated 2QFY12 Results (Rs mn)

	2QFY11	1QFY12A	2QFY12A	% Chg YoY	% Chg QoQ
Gross Sales	298,297	345,249	373,790	25.3%	8.3%
Less: Excise duty	10,477	9,525	11,814	12.8%	24.0%
Net sales	287,820	335,725	361,975	25.8%	7.8%
Decrease/(Increase) in Stocks	(9,600)	(10,532)	(7,740)		
Raw Materials	194,096	229,883	249,128	30.8%	10.0%
Staff costs	22,742	25,925	28,656	26.0%	10.5%
Other Expenses	38,743	45,832	43,777	13.0%	-4.5%
Total Expenditure	245,981	291,108	313,821	27.6%	7.8%
	37,580				
EBITDA	41,839	44,617	48,154	15.1%	7.9%
Forex gains	1,276	(570)	(4,390)		
Product Development	1,823	2,259	3,114.8	70.9%	37.9%
Interest	5,313	7,659	5,251	-1.2%	-31.4%
Other income	195	761	608	211.4%	-20.0%
EBDT	36,176	34,890	36,008	-0.5%	3.2%
Depreciation & Amortization	10,949	11,432	13,308.2	21.6%	16.4%
PBT	25,227	23,458	22,700	-10.0%	-3.2%
Tax	3,131	3,519	3,630	16.0%	3.2%
PAT	22,096	19,939	19,069	-13.7%	-4.4%
Minority Interest and share of profits from associate cos	134	57	(296)	-320.7%	-617.1%
Net Profit	22,230	19,996	18,773	-15.5%	-6.1%
Profit Margins					
EBITDA (%) net sales	14.5	13.3	13.3		
Interest cover (x)	7.9	5.9	9.3		
Other income / EBDIT (%)	0.5	1.7	1.2		
Other income / PAT (%)	0.9	3.8	3.2		
EBIT (%)	10.4	9.6	9.3		
EBDT (%)	12.1	10.1	9.6		
Pre tax margins (%)	8.5	6.8	6.1		
Tax / PBT (%)	12.4	15.0	16.0		
Net profit margins (%)	7.5	5.8	5.0		
Cost ratios (net sales)					
Raw materials / sales	64.1	65.3	66.7		
Staff costs / sales	7.9	7.7	7.9		
Other expenses / sales	13.5	13.7	12.1		
Other expenses / sales	13.5	13.7	12.1		

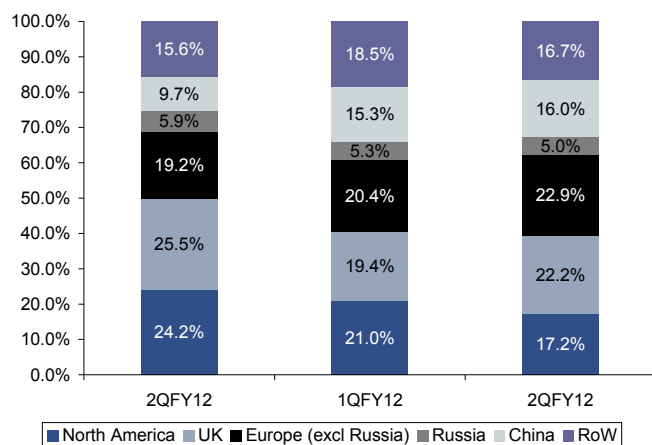
Source: Company, Citi Investment Research and Analysis

Figure 6. Jaguar Land Rover 2QFY12 Results (GBP mn)

	2QFY11	1QFY12	2QFY12	% Chg YoY	% Chg QoQ
Revenue	2,247	2,712	2,929	30.3%	8.0%
ASPs	40,759	43,679	43,066	5.7%	-1.4%
EBITDA	373	408	437	17.3%	7.0%
EBITDA Margin (%)	16.6%	15.1%	14.9%		
PBT	259	249	287	10.6%	15.4%
PAT	238	219	238	-0.3%	8.5%

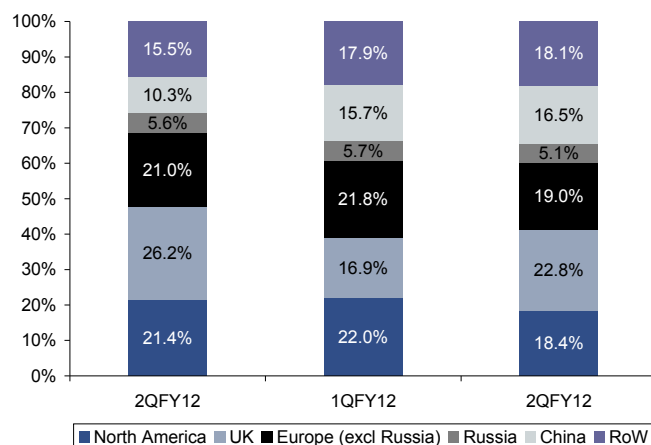
Source: Citi Investment Research and Analysis

Figure 7. Jaguar Land Rover: Wholesales volumes by geography



Source: Company

Figure 8. Jaguar Land Rover: Retail volumes by geography



Source: Company

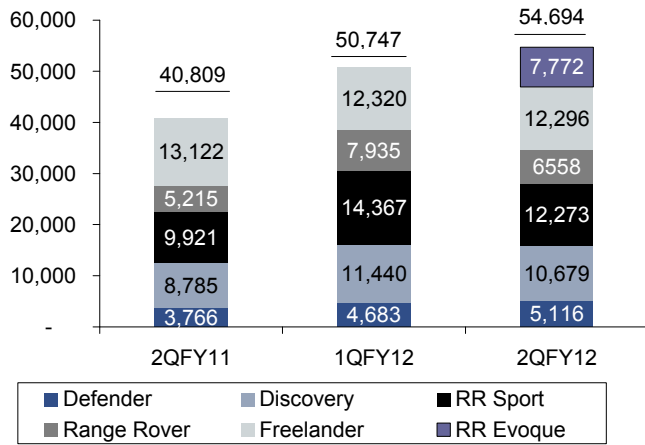
Figure 9. Jaguar Land Rover: Region-wise sales volume split

	Land Rover Wholesale Volumes					Jaguar Wholesale Volumes					
	2QFY12	1QFY12	2QFY12	% Chg YoY	% Chg QoQ	2QFY12	1QFY12	2QFY12	% Chg YoY	% Chg QoQ	
North America	8,193	10,125	8,948	9.2%	-11.6%	North America	5,145	2,921	2,780	-46.0%	-4.8%
UK	9,882	8,685	10,848	24.9%	24.9%	UK	4,156	3,381	4,232	25.2%	25.2%
Europe (excl Russia)	8,068	10,499	13,102	24.8%	24.8%	Europe (excl Russia)	2,502	2,151	2,447	13.8%	13.8%
Russia	2,985	3,010	3,154	4.8%	4.8%	Russia	245	276	275	-0.4%	-0.4%
China	4,947	8,290	9,175	10.7%	10.7%	China	418	1,235	1,705	38.1%	38.1%
RoW	6,734	10,138	9,467	-6.6%	-6.6%	RoW	1,859	1,379	1,867	35.4%	35.4%
Total	40,809	50,747	54,694	7.8%	7.8%	Total	14,325	11,343	13,306	17.3%	17.3%

	Land Rover Retail Volumes					Jaguar Retail Volumes					
	2QFY12	1QFY12	2QFY12	% Chg YoY	% Chg QoQ	2QFY12	1QFY12	2QFY12	% Chg YoY	% Chg QoQ	
North America	7,951	9,775	9,010	13.3%	-7.8%	North America	4,117	4,143	3,096	-24.8%	-25.3%
UK	10,182	7,729	10,635	37.6%	37.6%	UK	4,624	2,938	4,361	48.4%	48.4%
Europe (excl Russia)	9,108	11,582	10,127	-12.6%	-12.6%	Europe (excl Russia)	2,725	2,231	2,331	4.5%	4.5%
Russia	2,909	3,307	3,091	-6.5%	-6.5%	Russia	261	283	278	-1.8%	-1.8%
China	5,167	8,577	9,235	7.7%	7.7%	China	634	1,366	1,634	19.6%	19.6%
RoW	6,985	9,749	10,351	6.2%	6.2%	RoW	1,757	1,596	1,533	-3.9%	-3.9%
Total	42,302	50,719	52,449	3.4%	3.4%	Total	14,118	12,557	13,233	5.4%	5.4%

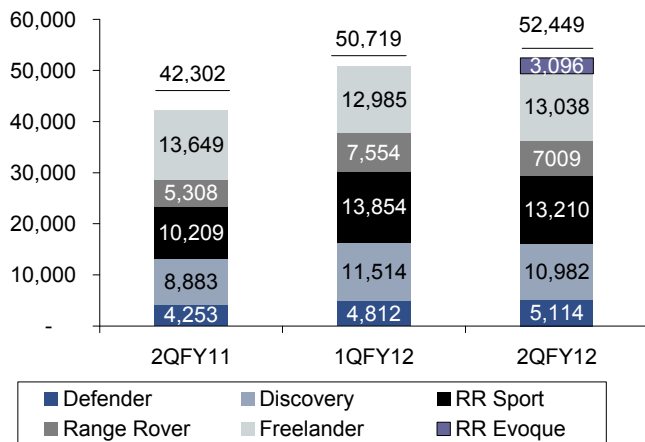
Source: Company

Figure 10. Land Rover Wholesale Volumes



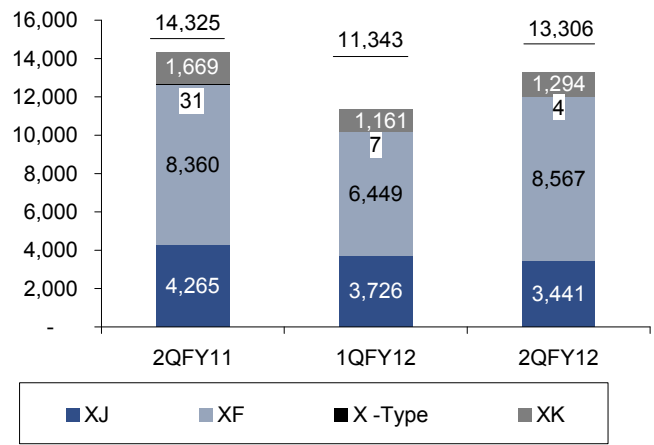
Source: Company

Figure 12. Land Rover Retail Volumes



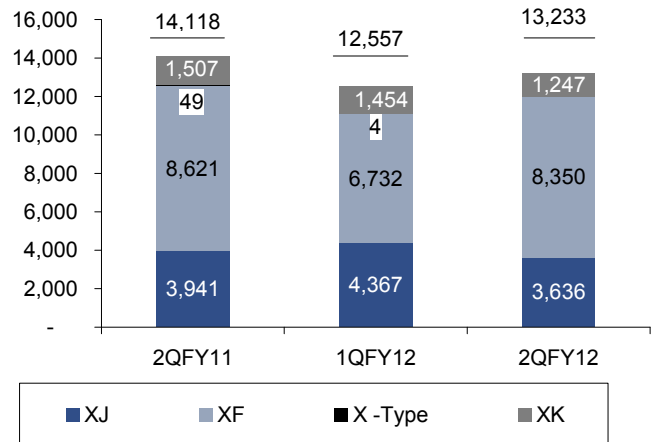
Source: Company

Figure 11. Jaguar Wholesale Volumes



Source: Company

Figure 13. Jaguar Retail Volumes



Source: Company

Figure 14. Tata Motors: Standalone Profit and Loss Statement (Rs mn)

	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Net Sales	355,931	480,404.6	512,760	596,305	678,089
% Change YoY	38.9	35.0	6.7	16.3	13.7
Raw Materials	243,283	340,825	362,350	421,416	479,235
% of Net Sales	68.4	70.9	70.7	70.7	70.7
Other Variable Expenses	28,640	38,602	42,648	48,490	55,138
% 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	4.9	4.9	4.8
Power & Fuel Cost	3,626	4,713	5,106	6,137	7,222
% of Net Sales	1.0	1.0	1.0	1.0	1.1
Other Expenses	20,238	25,612	34,671	38,994	41,558
% of Net Sales	5.7	5.3	6.8	6.5	6.1
Total Expenses	314,148	432,692	470,009	544,057	615,655
% of Net Sales	88.3	90.1	91.7	91.2	90.8
EBITDA	41,783	47,713	42,751	52,248	62,435
EBITDA margin (%)	11.7	9.9	8.3	8.8	9.2

Source: Citi Investment Research and Analysis estimates, Company

Figure 15. Jaguar Land Rover: Profit and Loss Statement (£ mn)

	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Net Sales	6,554	9,905	11,265	12,270	13,708
% Change YoY					
Raw Materials (mat costs + bought outs)	4,439	6,101	7,187	7,811	8,636
% of Net Sales	67.7	61.6	63.8	63.7	63.0
Other Variable Expenses (stores, spares, tools)	59.0	99.1	112.6	122.7	137.1
% of Net Sales	0.90	1.00	1.00	1.00	1.00
Employee Cost	730	767	814	869.9	955.0
% of Net Sales	11.14	7.74	7.22	7.09	6.97
Power & Fuel Cost	56.2	74.1	81.6	90.5	102.9
% of Net Sales	0.86	0.75	0.72	0.74	0.75
Other Expenses	838	1,245	1,350	1,522	1,778
% of Net Sales	12.78	12.57	11.99	12.41	12.97
Total Expenses	6,122.0	8,286.6	9,544.8	10,416.9	11,609
% of Net Sales	93.41	83.66	84.73	84.90	84.69
EBITDA	432.0	1,618.5	1,719.7	1,853.4	2,099
EBITDA margin (%)	6.6	16.3	15.3	15.1	15.3

Source: Company, Citi Investment Research and Analysis estimates

Figure 16. Tata Motors: Consolidated Profit and Loss Statement (Rs mn)

	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Net sales & operational income	925,193	1,231,333	1,370,082	1,529,959	1,719,084
% change YoY	30.4	33.1	11.3	11.7	12.4
Raw material expenses	615,823	790,084	899,627	1,004,445	1,121,958
% of net sales	66.6	64.2	65.7	65.7	65.3
Manpower costs	87,518	93,427	87,621	95,826	105,681
% of net sales	9.5	7.6	6.4	6.3	6.1
Other variable expenses	45,840	56,668	63,089	71,214	80,782
% of net sales	5.0	4.6	4.6	4.7	4.7
Fixed expenses	135,795	170,768	198,814	217,634	231,253
% of net sales	14.7	13.9	14.5	14.2	13.5
Expenses Capitalised	(45,925)	(57,413)	(57,389)	(57,989)	(48,936)
Total Expenditure	839,051	1,053,533	1,191,763	1,331,131	1,490,738
% of sales	90.7	85.6	87.0	87.0	86.7
EBITDA	86,142	177,800	178,319	198,829	228,345
Product Development	4,982	9,625	10,650	14,200	14,200
Interest	22,397	20,454	19,308	19,536	19,859
Other income	416	896	2,111	2,360	2,600
EBDT	59,178	148,617	150,473	167,452	196,886
Depreciation	38,871	46,555	51,879	57,124	65,724
Exceptionals	14,919	2,310	-	-	-
PBT	35,226	104,372	98,593	110,328	131,163
Tax	10,058	12,164	12,324	14,894	17,707
PAT	25,169	92,208	86,269	95,434	113,456
Minority Interest and share of profits from associate cos	542	528	(459)	(513)	(685)
PAT (reported)	25,711	92,736	85,810	94,921	112,771
PAT (Recurring)	15,051	90,695	85,810	94,921	112,771
Profit Margins					
EBITDA Margin (%)	9.3	14.4	13.0	13.0	13.3
Other income / EBDIT (%)	0.5	0.5	1.2	1.3	1.2
Other income / PAT (%)	1.6	1.0	2.5	2.5	2.3
Tax / PBT (%)	28.6	11.7	12.5	13.5	13.5
Net profit margins (%)	2.8	7.5	6.3	6.2	6.6
EPS FD (Rs)	9.0	29.1	26.0	28.8	34.2
CEPS FD (Rs)	22.6	43.7	41.8	46.2	54.2

Source: Company, Citi Investment Research and Analysis estimates

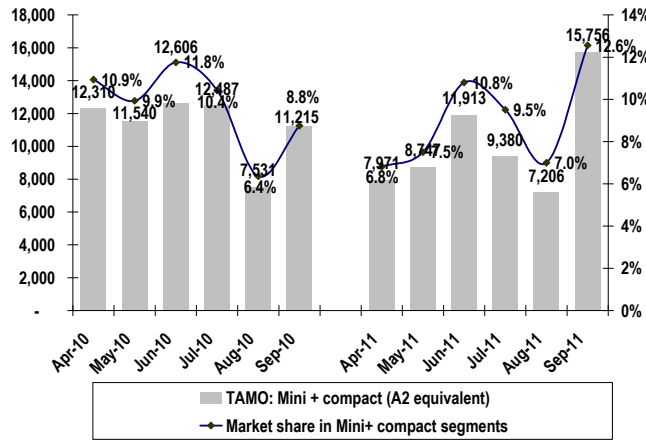
Figure 17. Tata Motors: Consolidated Balance Sheet Statement (Rs mn)

	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Share Capital	5,706	6,377	6,377	6,377	6,377
Reserves and Surplus	76,359	185,338	264,010	348,297	447,388
Shareholder's Equity	82,065	191,715	270,388	354,674	453,765
Minority Interest	2,135	2,466	2,925	3,438	4,122
Total Debt	351,924	327,914	315,677	335,535	326,426
Deferred Tax Liability	11,536	14,638	14,638	14,638	14,638
Total Sources of Funds	447,660	536,733	603,628	708,285	798,951
Gross Block	648,518	714,629	837,343	975,057	1,114,368
Less: Depreciation	344,135	396,987	448,866	505,990	571,714
Net Block	304,383	317,643	388,477	469,067	542,654
CWIP	80,680	117,289	117,289	117,289	117,289
Total Fixed Assets	385,063	434,931	505,766	586,356	659,943
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	152,334	166,877	184,819
Sundry Debtors	71,912	68,774	76,038	84,670	94,903
Cash and Bank Balances	87,433	109,479	95,906	107,097	120,336
Loans and Advances	76,223	91,247	94,696	106,171	119,880
Loans and Adv on vehicles	76,584	100,125	110,138	121,151	133,267
Total Current Assets	425,296	510,349	529,130	585,986	653,223
Current Liabilities and Provisions					
Current Liabilities	340,773	371,147	401,626	432,095	478,887
Provisions	76,435	98,692	90,932	93,253	96,619
Total CL and Provisions	417,208	469,838	492,558	525,348	575,506
Net Current Assets	8,088	40,511	36,571	60,639	77,717
Misc Expenditure	-1911.5	0	0	0	0
Total Assets	447,660	536,733	603,628	708,285	798,951

Source: Company, Citi Investment Research and Analysis estimates

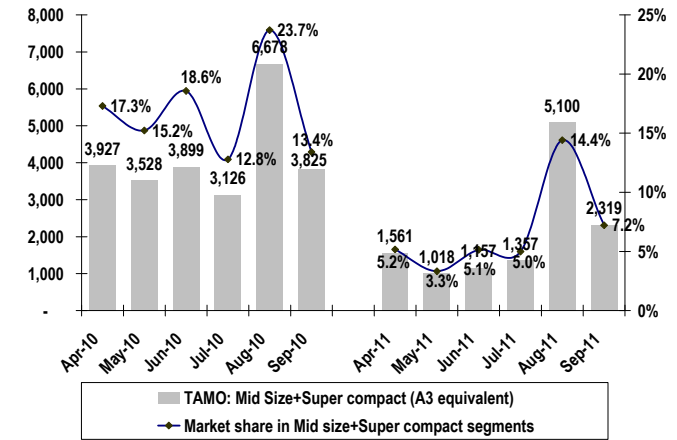
Appendix 1: Market Share Data

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



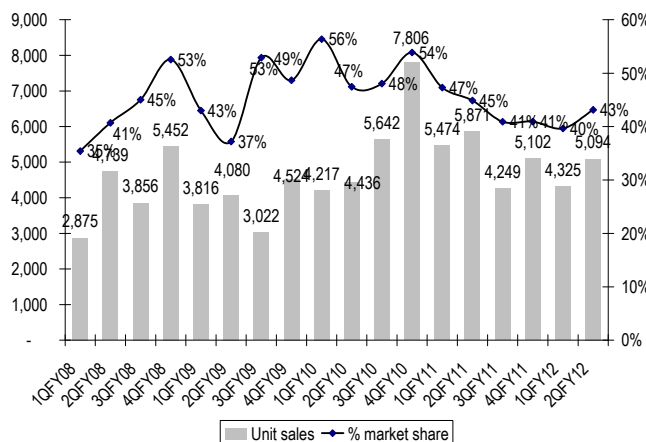
*Note: SIAM changed classifications in April 2011. Mini+Compact is a close approximation to the earlier A2 segment
Source: SIAM, Company, Citi Investment Research and Analysis

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



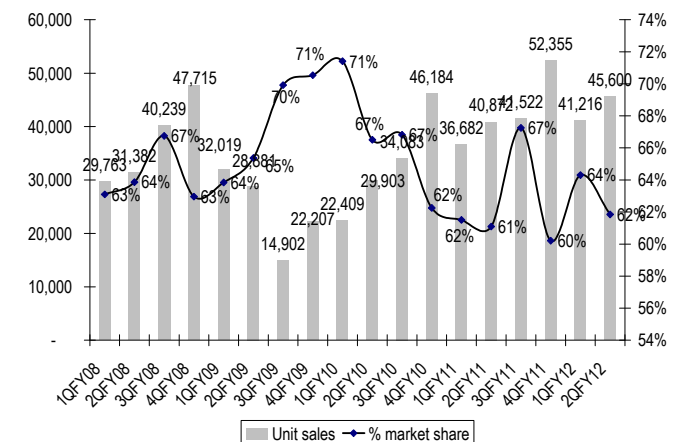
*Note: SIAM changed classifications in April 2011. Mid size+super compact is an approximation to the earlier A3 segment.
Source: SIAM, Company, Citi Investment Research and Analysis

Figure 20. Tata Motors: Domestic Passenger MHCV Sales



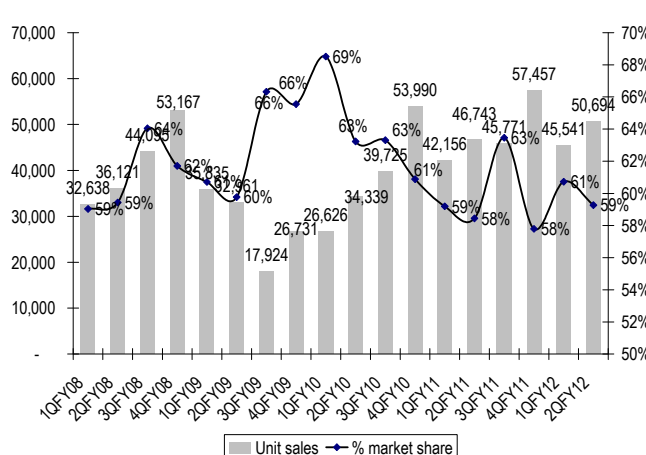
Source: SIAM, Citi Investment Research and Analysis

Figure 21. Tata Motors: Domestic Goods MHCV Sales



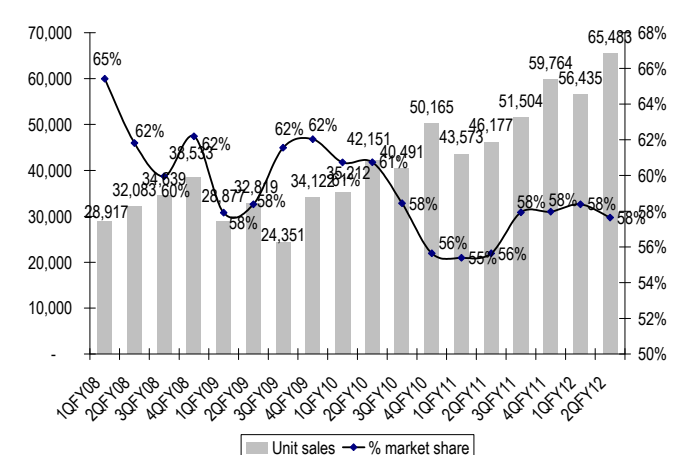
Source: SIAM, Citi Investment Research and Analysis

Figure 22. Tata Motors: Total Domestic MHCV Sales



Source: SIAM, Citi Investment Research and Analysis

Figure 23. Tata Motors: Total Domestic LCV Sales



Source: SIAM, 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 Rs215 target price for Tata Motors is based on a sum-of-the-parts valuation. We value Tata Motors' core business at Rs111/share (on a share count of 3294m shares), based on 7x Mar13E EV/EBITDA. We value subsidiaries and investments at Rs17. We attribute around Rs87/share to JLR - we value this at 3x Mar13E EV/EBITDA, which equates to around Rs120/share and then deduct the total net debt which amounts to around Rs33/share. At our target price, TTMT would trade at a consolidated price-to-book value of 2.6x / 2.0x (FY12/13E), which appears reasonable when juxtaposed against ROEs of 37%, 30% in FY12E/13E respectively. On a P/E basis, the stock would trade at ~8.3x and 7.5x 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

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IMPORTANT DISCLOSURES

Tata Motors (TAMO.BO)

Ratings and Target Price History Fundamental Research

Analyst: Jamshed Dadabhoy



	Date	Rating	Target Price	Closing Price
1	14-Nov-08	*2H	*32.60	27.39
2	3-Jun-09	*2M	*76.80	72.40
3	30-Nov-09	*1M	*165.60	132.18
4	2-Mar-10	1M	*170.20	159.42

* Indicates change

	Date	Rating	Target Price	Closing Price
5	19-Apr-10	1M	*189.40	155.09
6	13-Aug-10	1M	*239.40	203.40
7	10-Nov-10	1M	*306.60	260.43
8	20-Jul-11	1M	*240.60	193.74

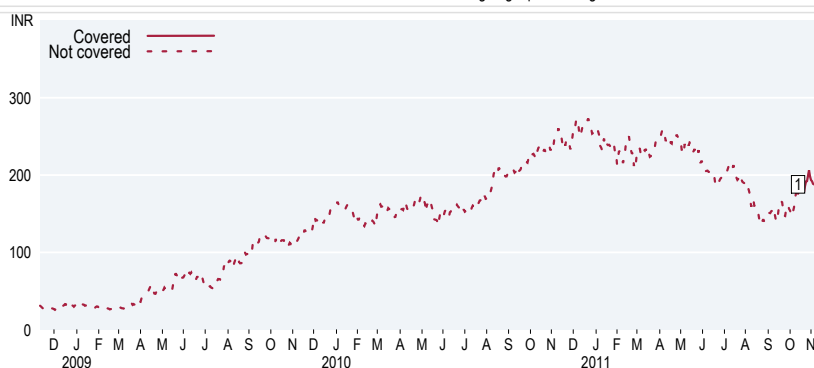
	Date	Rating	Target Price	Closing Price
9	12-Aug-11	1M	*228.20	160.22
10	14-Sep-11	1M	*228.20	142.50
11	7-Oct-11	Stock rating system changed		
12	7-Oct-11	*1	228.20	158.80

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

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<i>Data current as of 9 Oct 2011</i>	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	59%	34%	7%	10%	79%	10%
<i>% of companies in each rating category that are investment banking clients</i>	45%	42%	37%	50%	43%	46%

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