

May 21, 2012

Surjit Arora  
surjitarora@plindia.com  
+91-22-66322235

Rating	<b>BUY</b>
Price	Rs142
Target Price	Rs177
Implied Upside	24.6%
Sensex	16,153
Nifty	4,891

(Prices as on May 18, 2012)

#### Trading data – Tata Motors

Market Cap. (Rs bn)	700.4
Shares o/s (m)	2,695.0
3M Avg. Daily value (Rs m)	3850.1

#### Major shareholders – Tata Motors

Promoters	35.04%
Foreign	24.53%
Domestic Inst.	14.38%
Public & Other	26.05%

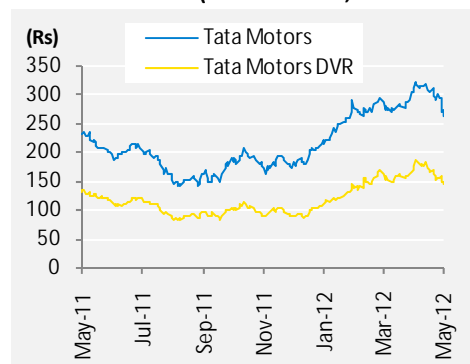
#### Stock Performance – Tata Motors DVR

(%)	1M	6M	12M
Absolute	(23.4)	63.8	6.7
Relative	(16.4)	62.5	18.6

#### How we differ from Consensus – Tata Motors

EPS (Rs)	PL	Cons.	% Diff.
2013	44.1	40.8	8.1
2014	48.7	45.6	6.8

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



Source: Bloomberg

■ **Tata Motors DVR discount at 45.2%:** The average discount for the DVR to Tata Motors' ordinary share was 36.7% since inception. The average discount for the DVR share over the last two years has been 40.5%. At the CMP, the DVR is trading at a 45.2% discount to Tata Motors' ordinary share. We believe that at the current levels the probability of the discount narrowing is higher.

■ **Tata Motors' SOTP Valuation stands at Rs322/share:** We value JLR at 4.0x FY13E EV/EBITDA multiple at Rs251/share. We value standalone business at 9.0x FY13E EPS at Rs45/share, whereas we value the other subsidiaries at a 30% holding discount at Rs26/share. At our SOTP based target price of Rs322, we see an upside potential of 23.8% in the stock from the current levels.

■ **We recommend BUY on Tata Motor DVR:** The DVR has corrected 18.9% in the last one month compared to a 16.0% correction in the Tata Motors' stock. We believe that the current price has discounted all the negatives and the risk-reward has turned favourable. DVR is trading at a valuation of 3.2x FY13E EPS and 4.1x FY13E adjusted EPS (adjusted for R&D being expensed rather than capitalized). We recommend 'BUY' on Tata Motors' DVR stock.

■ **We expect 22%+ volume growth in H1FY13E for JLR:** We maintain our volume estimate for JLR at 3.63lac units, translating into a growth of 15.6% YoY for FY13E. On account of low base and higher contribution of 'Evoque' (monthly run-rate of 8,000 units), we expect H1FY13E volume growth at 22.7% YoY. Hence, with two new launches i.e. Jaguar XF station wagon in Q3FY13E and new Range Rover platform in Q4FY13E, we have built in 8.5% YoY growth in H2FY13E, which in our view, is conservative.

Contd...2

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	1,231,333	1,680,131	1,894,543	2,045,280
Growth (%)	33.1	36.4	12.8	8.0
EBITDA (Rs m)	175,550	241,935	282,757	309,039
PAT (Rs m)	88,175	119,862	147,096	162,309
EPS (Rs)	27.7	35.9	44.1	48.7
Growth (%)	631.1	30.0	22.7	10.3
Net DPS (Rs)	4.0	3.0	3.5	4.0

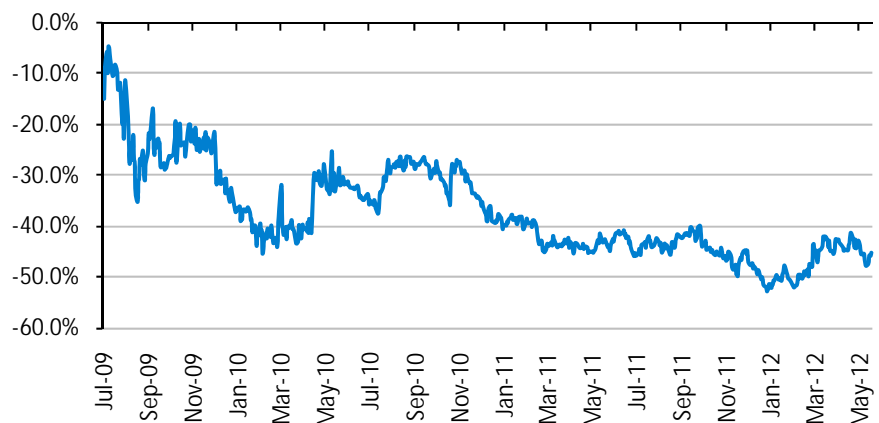
Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	14.3	14.4	14.9	15.1
RoE (%)	64.4	50.3	45.8	44.4
RoCE (%)	21.2	21.6	21.1	21.6
EV / sales (x)	0.9	0.7	0.6	0.6
EV / EBITDA (x)	6.0	4.8	4.1	3.6
PE (x)	9.4	7.2	5.9	5.3
P / BV (x)	4.3	3.0	2.4	2.3
Net dividend yield (%)	1.5	1.2	1.3	1.5

Source: Company Data; PL Research

- Risk: Reward favourable:** Our base case Target Price (TP) for ordinary Tata Motors stands at Rs322. Assuming a 42% discount, the derived TP for Tata Motors DVR stands at Rs187, an upside potential of 31.6%. Assuming the current 45% discount continues, the derived value for DVR would stand at Rs177, an upside potential of 24.6%.
- Q4FY12E consolidated profit likely to increase by 65.3% YoY:** Our estimate for Q4FY12 consolidated profit of Tata Motors stands at Rs40.5bn, a growth of 65.3% YoY. 90% of the consolidated profit is likely to be contributed by JLR. We believe the recent correction of ~18.0% correction in Tata Motor DVR provides a good entry point for investors. Any reduction in the discount from the current 45.0% could add as fillip to the overall stock returns.
- Tata Motors trading at discount compared to its global peers:** Adjusted for R&D expenses, Tata Motors is trading at 7.4x FY13E EPS and 6.5x FY14E EPS. The Global peers are trading at 7.0-9.0x FY13E EPS and 6.0-8.0x FY14E EPS, with a 10-15% RoE as against 40-45% ROE for Tata Motors. Given the success of its new launches and higher RoEs, we believe Tata Motors' valuations are attractive.

**Exhibit 1: Premium / Discount to ordinary shares**

At the CMP of Rs530, the DVR is trading at a 46% discount to the ordinary Tata Motors' share, nearing its worst ever level of 49.4% in February 2011.



Source: Bloomberg Data, PL Research

**Exhibit 2: SOTP Valuation (Rs)**

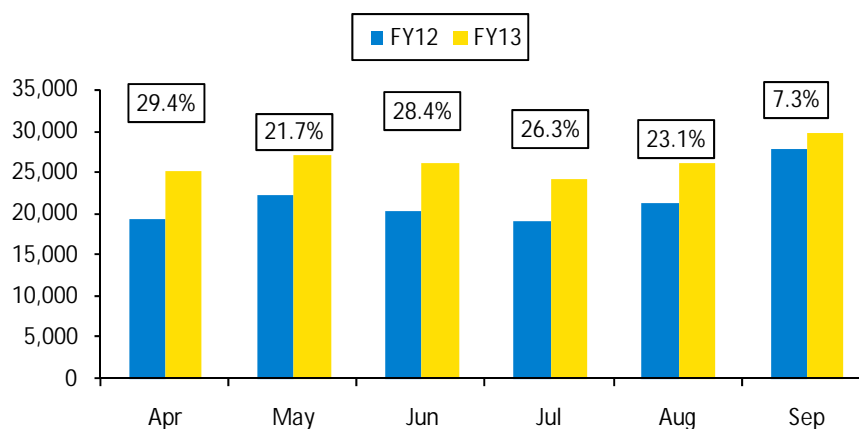
Core business	9x estimated FY13E Stand. EPS	45
JLR	4.0x FY13E EV/EBITDA	251
Subsidiaries	30% discount	26
<b>SOTP Value</b>		<b>322</b>

Source: PL Research

**Exhibit 3: Tata Motors DVR – Scenario Analysis**

Scenario 1	Discount	TP
Tata Motors DVR	42%	187
Potential upside (%)		31.6%
Scenario 2	Discount	TP
Tata Motors DVR	45%	177
Potential upside (%)		24.6%
Scenario 3	Discount	TP
Tata Motors DVR	50%	167
Potential upside (%)		17.5%

Source: PL Research

**Exhibit 4: JLR Volume growth for H1FY13E**


Source: Company Data, PL Research   indicates YoY gr.

We maintain our volume estimate for JLR at 3.63lac units, translating into a growth of 15.6% YoY for FY13E. On account of low base and higher contribution of Evoque (monthly run-rate of 8,000 units), we expect H1FY13E volume growth at 22.7% YoY.

Hence, with two new launches i.e. Jaguar XF station wagon in Q3FY13E and new Range Rover platform in Q4FY13E, we have built in 8.5% YoY growth in H2FY13E, which in our view, is conservative.

**Exhibit 5: Geographical Break-up of Volumes**

China's share in overall portfolio is likely to increase from 9.0% in FY11 to 16.8% in FY12E and further to 21.7% in FY13E

	FY12E	FY13E	YoY gr.
<b>Volume</b>			
North America	60,000	63,000	5.0%
UK	59,500	57,500	-3.4%
Europe (excluding UK)	69,500	72,000	3.6%
Russia	17,250	25,000	44.9%
China	52,783	79,000	49.7%
Rest of the world	55,400	67,000	20.9%
<b>Total</b>	<b>314,433</b>	<b>363,500</b>	<b>15.6%</b>
<b>Geographical Contribution</b>			
North America	19.1%	17.3%	
UK	18.9%	15.8%	
Europe (excluding UK)	22.1%	19.8%	
Russia	5.5%	6.9%	
China	16.8%	21.7%	
Rest of the world	17.6%	18.4%	
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

Source: Company Data, PL Research

**Exhibit 6: Global Peer Comparison**

	PE (x)		EV / EBITDA (x)		ROE (%)		P/BV (x)	
	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14
Tata Motors	5.9	5.3	4.1	3.6	45.8	44.4	2.4	2.3
Toyota Motor	11.6	9.2	10.6	9.0	8.1	9.3	0.9	0.8
Daimler AG	7.2	6.3	7.7	6.8	14.6	15.1	1.0	0.9
Bayerische Motoren Werke AG	8.1	7.9	7.4	7.1	16.3	15.2	1.4	1.2
Ford Motor	8.5	7.5	9.8	8.6	34.2	35.0	2.5	2.0

Source: Bloomberg, PL Research

**Income Statement (Rs m) – Tata Motors**

Y/e March	2011	2012	2013E	2014E
<b>Net Revenue</b>	<b>1,231,333</b>	<b>1,680,131</b>	<b>1,894,543</b>	<b>2,045,280</b>
Raw Material Expenses	790,084	1,103,170	1,242,305	1,338,187
Gross Profit	441,249	576,961	652,238	707,094
Employee Cost	93,427	122,045	131,427	141,137
Other Expenses	172,273	212,981	238,054	256,918
<b>EBITDA</b>	<b>175,550</b>	<b>241,935</b>	<b>282,757</b>	<b>309,039</b>
Depr. & Amortization	56,180	70,807	74,530	80,450
Net Interest	20,454	24,066	26,556	27,066
Other Income	895	2,100	2,300	2,500
<b>Profit before Tax</b>	<b>99,810</b>	<b>149,162</b>	<b>183,971</b>	<b>204,023</b>
Total Tax	12,164	28,700	36,095	40,700
<b>Profit after Tax</b>	<b>87,646</b>	<b>120,462</b>	<b>147,876</b>	<b>163,323</b>
Ex-Od items / Min. Int.	4,074	(9,320)	780	1,014
<b>Adj. PAT</b>	<b>88,175</b>	<b>119,862</b>	<b>147,096</b>	<b>162,309</b>
<b>Avg. Shares O/S (m)</b>	<b>3,188.6</b>	<b>3,335.1</b>	<b>3,335.1</b>	<b>3,335.1</b>
<b>EPS (Rs.)</b>	<b>27.7</b>	<b>35.9</b>	<b>44.1</b>	<b>48.7</b>

**Cash Flow Abstract (Rs m) – Tata Motors**

Y/e March	2011	2012	2013E	2014E
C/F from Operations	104,095	133,242	200,162	184,125
C/F from Investing	(70,657)	(182,858)	(168,868)	(118,938)
C/F from Financing	(11,393)	102,077	(18,723)	(18,067)
Inc. / Dec. in Cash	22,046	52,462	12,571	47,120
Opening Cash	87,433	109,479	161,941	174,511
Closing Cash	109,479	161,941	174,511	216,019
FCFF	56,736	61,316	174,032	229,528
FCFE	33,566	188,793	183,532	240,528

**Key Financial Metrics – Tata Motors**

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	33.1	36.4	12.8	8.0
EBITDA (%)	103.8	37.8	16.9	9.3
PAT (%)	717.1	35.9	22.7	10.3
EPS (%)	631.1	30.0	22.7	10.3
<b>Profitability</b>				
EBITDA Margin (%)	14.3	14.4	14.9	15.1
PAT Margin (%)	7.2	7.1	7.8	7.9
RoCE (%)	21.2	21.6	21.1	21.6
RoE (%)	64.4	50.3	45.8	44.4
<b>Balance Sheet</b>				
Net Debt : Equity	1.1	1.0	0.8	0.7
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	9.4	7.2	5.9	5.3
P / B (x)	4.3	3.0	2.4	2.3
EV / EBITDA (x)	6.0	4.8	4.1	3.6
EV / Sales (x)	0.9	0.7	0.6	0.6
<b>Earnings Quality</b>				
Eff. Tax Rate	12.2	19.2	19.6	19.9
Other Inc / PBT	3.1	(3.2)	1.3	1.2
Eff. Depr. Rate (%)	7.9	8.2	7.2	7.0
FCFE / PAT	38.1	157.5	124.8	148.2

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m) – Tata Motors**

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	191,715	284,414	357,839	373,378
Total Debt	327,914	455,392	464,892	475,892
Other Liabilities	23,428	24,628	24,828	25,028
<b>Total Liabilities</b>	<b>543,057</b>	<b>764,433</b>	<b>847,559</b>	<b>874,298</b>
Net Fixed Assets	434,931	604,169	791,997	871,935
Goodwill	42,171	42,171	40,171	45,171
Investments	25,443	45,505	48,505	51,505
Net Current Assets	40,512	72,588	(33,115)	(94,314)
<i>Cash &amp; Equivalents</i>	<i>109,479</i>	<i>161,941</i>	<i>174,512</i>	<i>216,019</i>
<i>Other Current Assets</i>	<i>400,870</i>	<i>454,886</i>	<i>433,306</i>	<i>387,916</i>
<i>Current Liabilities</i>	<i>469,838</i>	<i>544,239</i>	<i>640,933</i>	<i>698,249</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>543,057</b>	<b>764,433</b>	<b>847,559</b>	<b>874,298</b>

**Quarterly Financials (Rs m) – Tata Motors**

Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12E
<b>Net Revenue</b>	<b>335,725</b>	<b>361,975</b>	<b>452,603</b>	<b>529,828</b>
<b>EBITDA</b>	<b>44,618</b>	<b>48,155</b>	<b>72,227</b>	<b>76,935</b>
<i>% of revenue</i>	<i>13.3</i>	<i>13.3</i>	<i>16.0</i>	<i>14.5</i>
Depr. & Amortization	13,691	16,423	20,117	20,576
Net Interest	7,659	5,251	5,769	5,387
Other Income	761	606	240	493
<b>Profit before Tax</b>	<b>23,459</b>	<b>22,699</b>	<b>44,938</b>	<b>51,464</b>
Total Tax	3,519	3,630	10,711	10,840
<b>Profit after Tax</b>	<b>19,996</b>	<b>18,772</b>	<b>34,055</b>	<b>40,436</b>
<b>Adj. PAT</b>	<b>20,566</b>	<b>23,162</b>	<b>35,699</b>	<b>40,436</b>

**Key Operating Metrics – Tata Motors**

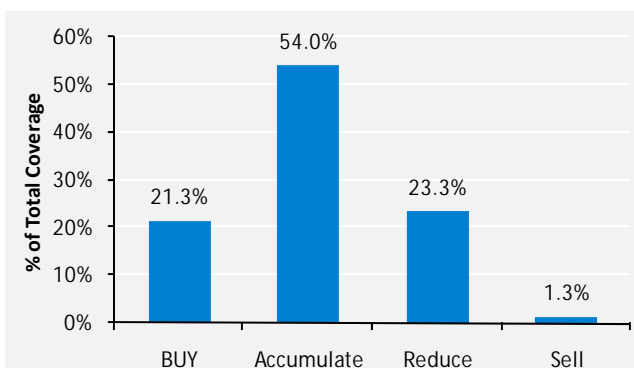
Y/e March	2011	2012	2013E	2014E
CV Vol (nos)	496,985	584,328	650,596	707,115
Passenger Vehicle (Rs)	306,337	322,561	391,602	441,437
Standalone Vol. (Rs)	803,322	906,889	1,042,198	1,148,552
Stnd. Topline (Rs m)	480,406	550,905	623,721	667,362
Stnd. EBITDA (Rs m)	47,860	39,738	49,944	53,622
Stdn. EBITDA Marg. (%)	10.0	7.2	8.0	8.0
Stnd. PAT (Rs m)	19,518	14,560	19,506	21,988
JLR Volumes (nos)	243,621	314,433	363,500	398,640
JLR Topline (Rs m)	702,186	1,087,154	1,235,556	1,337,334
JLR EBITDA (Rs m)	114,787	187,381	214,881	233,289
JLR EBITDA Marg. (%)	16.3	17.2	17.4	17.4
JLR PAT (Rs m)	73,774	107,474	130,121	140,889

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.  
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India  
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.