Tata Motors TAMO.NS TTMT IN .

AUTOS & AUTO PARTS

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Riding high on strong JLR performance

Strong JLR performance should continue on Evoque sales and robust growth in China

February 29, 2012

Rating Remains	**Buy**
Target price Increased from 200	INR 326
Closing price February 28, 2012	INR 273
Potential upside	+19.4%

Action: Maintain Buy with a revised TP of INR326; offers 19% upside

TTMT reported strong 3QFY12 results (23-35% ahead of our and consensus expectations) driven by a strong JLR performance. We expect JLR's margins (IFRS) to remain around 18% given currency tailwinds, increasing China contribution and operating leverage benefits due to robust volume growth. Despite strong outperformance over the past six months, valuations are reasonable, in our view. Maintain Buy.

Catalysts: Strong Evoque volumes, China mix and re-rating of JLR

- Strong Evoque volumes: Evoque has been very successful with JLR selling ~9,000 units/month. The order book for Evoque is full for the next two-three months which should lead to strong volume growth for JLR.
- Robust growth in China: JLR volumes in China increased by 81% y-y in 3QFY12 and accounted for 17% of total JLR sales. We expect the contribution of China to increase to 20% in the next few months, which augurs well for JLR's profitability.
- Further re-rating of the JLR business: If JLR continues to report strong volume growth and margins, we believe there is a possibility that the EV/EBITDA multiple could further re-rate from the current levels.

Valuation: SOTP-based TP increased to INR326

We raise our valuation for the JLR business to INR219.3 (earlier INR73.1) based on 3.0x FY14F EV/EBITDA (earlier 2.5x) as we factor in stronger-than-expected volume growth and margins. We cut our valuation for the standalone business to INR80.0 (8x FY14F EV/EBITDA) from INR 94.1 on weaker-than-expected margins for FY13F (7.5% vs. 9.3% earlier). We value other investments at INR26.8 (INR31.8 earlier). Note that we roll forward our TP to FY14F from FY13F earlier.

31 Mar	FY11	FY12F		FY13F		FY14F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	1,231,333	1,475,582	1,622,788	1,651,867	1,891,914	1,792,711	2,066,115
Reported net profit (mn)	92,736	87,395	109,314	93,594	139,846	101,978	151,582
Normalised net profit (mn)	90,998	87,395	109,314	93,594	139,846	101,978	151,582
Normalised EPS	28.54	27.41	34.28	29.35	43.86	31.98	47.54
Norm. EPS growth (%)	433.3	-4.0	20.1	7.1	27.9	9.0	8.4
Norm. P/E (x)	9.6	N/A	8.0	N/A	6.2	N/A	5.7
EV/EBITDA (x)	5.6	3.9	4.8	3.4	3.6	3.0	3.1
Price/book (x)	4.5	N/A	3.1	N/A	2.2	N/A	1.7
Dividend yield (%)	1.5	N/A	1.7	N/A	1.9	N/A	2.2
ROE (%)	67.7	38.5	45.9	31.3	40.6	27.4	32.5
Net debt/equity (%)	113.9	88.8	99.8	61.9	62.6	46.6	38.0

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Volume growth expectations for the JLR business remain robust on China and sales of the newly launched Evoque. Currency tailwinds and higher China contribution augur well for JLR margins.

Nomura vs consensus

Our FY13F consolidated EPS estimates are ~17% above consensus. Consensus is building ~17% margins for JLR compared to our estimate of 18%.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

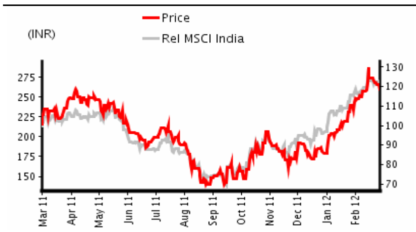
Key data on Tata Motors

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**925,193**	**1,231,333**	**1,622,788**	**1,891,914**	**2,066,115**
Cost of goods sold	-654,695	-838,029	-1,136,180	-1,322,309	-1,448,756
Gross profit	**270,498**	**393,304**	**486,608**	**569,604**	**617,359**
SG&A	-140,692	-178,257	-217,260	-239,360	-257,517
Employee share expense	-87,518	-93,427	-115,324	-128,291	-141,027
Operating profit	**42,288**	**121,620**	**154,025**	**201,953**	**218,815**
EBITDA	**81,160**	**168,175**	**210,274**	**274,408**	**301,596**
Depreciation	-38,871	-46,555	-56,250	-72,455	-82,781
Amortisation					
EBIT	42,288	121,620	154,025	201,953	218,815
Net interest expense	-22,397	-20,454	-19,922	-20,774	-17,766
Associates & JCEs	845	1,014	1,064	1,117	1,173
Other income	416	723	1,118	1,168	1,221
Earnings before tax	**21,152**	**102,902**	**136,285**	**183,464**	**203,444**
Income tax	-5,582	-11,419	-26,713	-43,324	-51,522
Net profit after tax	**15,570**	**91,483**	**109,572**	**140,140**	**151,922**
Minority interests	-303	-485	-258	-294	-340
Other items					
Preferred dividends					
Normalised NPAT	**15,267**	**90,998**	**109,314**	**139,846**	**151,582**
Extraordinary items	10,444	1,739	0	0	0
Reported NPAT	**25,711**	**92,736**	**109,314**	**139,846**	**151,582**
Dividends	-8,591	-12,742	-14,519	-16,697	-19,201
Transfer to reserves	**17,120**	**79,994**	**94,795**	**123,149**	**132,381**
Valuation and ratio analysis					
FD normalised P/E (x)	51.1	9.6	8.0	6.2	5.7
FD normalised P/E at price target (x)	60.9	11.4	9.5	7.4	6.9
Reported P/E (x)	30.3	9.4	8.0	6.2	5.7
Dividend yield (%)	1.1	1.5	1.7	1.9	2.2
Price/cashflow (x)	7.2	7.5	6.1	4.4	3.8
Price/book (x)	9.5	4.5	3.1	2.2	1.7
EV/EBITDA (x)	12.2	5.6	4.8	3.6	3.1
EV/EBIT (x)	23.2	7.8	6.6	4.9	4.3
Gross margin (%)	29.2	31.9	30.0	30.1	29.9
EBITDA margin (%)	8.8	13.7	13.0	14.5	14.6
EBIT margin (%)	4.6	9.9	9.5	10.7	10.6
Net margin (%)	2.8	7.5	6.7	7.4	7.3
Effective tax rate (%)	26.4	11.1	19.6	23.6	25.3
Dividend payout (%)	33.4	13.7	13.3	11.9	12.7
Capex to sales (%)	7.2	7.8	11.8	7.9	7.2
Capex to depreciation (x)	1.7	2.1	3.4	2.1	1.8
ROE (%)	18.9	67.7	45.9	40.6	32.5
ROA (pretax %)	10.2	14.6	14.7	15.8	15.4
Growth (%)					
Revenue	39.7	33.1	31.8	16.6	9.2
EBITDA	166.9	107.2	25.0	30.5	9.9
EBIT	370.9	187.6	26.6	31.1	8.3
Normalised EPS	474.7	433.3	20.1	27.9	8.4
Normalised FDEPS	595.4	433.3	20.1	27.9	8.4
Per share					
Reported EPS (INR)	9.01	29.08	34.28	43.86	47.54
Norm EPS (INR)	5.35	28.54	34.28	43.86	47.54
Fully diluted norm EPS (INR)	5.35	28.54	34.28	43.86	47.54
Book value per share (INR)	28.76	60.13	89.12	126.89	165.61
DPS (INR)	3.01	4.00	4.55	5.24	6.02

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	14.0	50.3	26.2
Absolute (USD)	14.6	59.1	16.5
Relative to index	12.4	41.7	28.8
Market cap (USDmn)	14,995.1		
Estimated free float (%)	60.0		
52-week range (INR)	292.7/137.55		
3-mth avg daily turnover (USDmn)	77.18		
Major shareholders (%)			
Tata Sons	25.9		
LIC	8.5		

Source: Thomson Reuters, Nomura research

Notes

Strong JLR margins should lead to higher consolidated EBITDA margins

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	81,160	168,175	210,274	274,408	301,596
Change in working capital	44,630	-11,217	-22,596	-13,151	-4,205
Other operating cashflow	-18,069	-40,978	-44,710	-62,107	-67,233
Cashflow from operations	**107,720**	**115,980**	**142,968**	**199,150**	**230,158**
Capital expenditure	-66,601	-96,423	-191,621	-149,700	-149,700
Free cashflow	**41,119**	**19,557**	**-48,653**	**49,450**	**80,458**
Reduction in investments	-9,617	-3,251	0	0	0
Net acquisitions					
Reduction in other LT assets	6,365	0	0	0	0
Addition in other LT liabilities	6,646	1,190	0	0	0
Adjustments	-1,776	-4,721	0	0	0
Cashflow after investing acts	**42,736**	**12,775**	**-48,653**	**49,450**	**80,458**
Cash dividends	-9,919	-14,670	-16,871	-19,401	-22,312
Equity issue	14,048	47,032	0	0	-5,819
Debt issue	1,345	-23,170	122,065	-5,627	-33,579
Convertible debt issue	0	0	0	0	0
Others	-1,895	331	258	294	340
Cashflow from financial acts	**3,579**	**9,523**	**105,451**	**-24,735**	**-61,370**
Net cashflow	**46,314**	**22,298**	**56,799**	**24,715**	**19,088**
Beginning cash	41,213	87,433	109,479	166,278	190,993
Ending cash	87,528	109,731	166,278	190,993	210,081
Ending net debt	263,650	218,435	283,701	253,358	200,691

Source: Company data, Nomura estimates

Notes

We expect strong cashflows over FY12-14F

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	87,433	109,479	166,278	190,993	210,081
Marketable securities	0	0	0	0	0
Accounts receivable	71,912	68,774	92,974	106,462	116,262
Inventories	113,120	140,705	194,827	221,092	241,162
Other current assets	151,991	191,391	287,423	327,733	358,748
Total current assets	**424,456**	**510,349**	**741,502**	**846,280**	**926,254**
LT investments	22,191	25,443	25,443	25,443	25,443
Fixed assets	385,063	434,931	570,302	647,547	714,466
Goodwill	34,229	35,848	35,848	35,848	35,848
Other intangible assets	0	0	0	0	0
Other LT assets	0	0	0	0	0
Total assets	**865,940**	**1,006,571**	**1,373,094**	**1,555,117**	**1,702,010**
Short-term debt	0	0	0	0	0
Accounts payable	219,823	266,848	376,612	420,936	458,595
Other current liabilities	197,385	202,990	244,984	267,572	286,594
Total current liabilities	**417,208**	**469,838**	**621,596**	**688,508**	**745,189**
Long-term debt	351,084	327,914	449,979	444,351	410,772
Convertible debt	0	0	0	0	0
Other LT liabilities	13,448	14,638	14,638	14,638	14,638
Total liabilities	**781,740**	**812,390**	**1,086,213**	**1,147,497**	**1,170,599**
Minority interest	2,135	2,466	2,724	3,018	3,358
Preferred stock	0	0	0	0	0
Common stock	5,706	6,377	6,377	6,377	6,377
Retained earnings	76,359	185,338	277,781	398,225	521,676
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**82,065**	**191,715**	**284,158**	**404,602**	**528,053**
Total equity & liabilities	**865,940**	**1,006,571**	**1,373,094**	**1,555,117**	**1,702,010**
Liquidity (x)					
Current ratio	1.02	1.09	1.19	1.23	1.24
Interest cover	1.9	5.9	7.7	9.7	12.3
Leverage					
Net debt/EBITDA (x)	3.25	1.30	1.35	0.92	0.67
Net debt/equity (%)	321.3	113.9	99.8	62.6	38.0
Activity (days)					
Days receivable		20.9	18.2	19.2	19.7
Days inventory		55.3	54.0	57.4	58.2
Days payable		106.0	103.6	110.1	110.8
Cash cycle	0.0	-29.9	-31.4	-33.4	-32.9

Source: Company data, Nomura estimates

Notes

We expect net debt/equity to decline gradually over FY12-14F

Riding high on strong JLR performance

TTMT reported strong 3QFY12 results (23-35% ahead of our and consensus expectations) driven by the robust performance of the JLR business. We expect JLR margins (IFRS) to remain around 18% in FY13F (18.6% in 3QFY12) given currency tailwinds, increasing China contribution and operating leverage benefits. Our volume expectations remain strong on China growth and newly launched Evoque sales. Despite the strong outperformance over the past six months, valuations are reasonable, in our view. Maintain Buy rating.

JLR – Key growth drivers remain firmly in place

JLR reported 30-45% growth in monthly sales volumes over the past six months driven by the successful launch of Evoque and strong growth in China. Better product mix and higher sales contribution from China resulted in strong margins for the company as well. As per IFRS, JLR's 3QFY12 IFRS EBITDA margins came in at 17%. However, as per the company, EBITDA was lower by GBP60mn due to a one-off forex loss on the evaluation of long-term monetary liabilities. Adjusted for this, margins were 18.6%, which surprised us positively. We were expecting margins of around 15%. We believe that margins could surprise relative to consensus expectations of 17% in FY13F as the demand pull is strong, the strong growth in China continues and currency tailwinds are further favorable at around 1% of margins from 3QFY12 levels. For our FY13-FY14 estimates, we are now building in 18% IFRS margins.

Overall, we believe that the key growth drivers for JLR remain firmly in place. Therefore, we increase our volume estimates for JLR by 11-16% for FY12-14F. We now estimate Evoque sales volume of 57,500 units in FY12F (25,000 earlier) and 85,000 units in FY13F (45,000 earlier). Our new volume estimates are 357,217 units in FY13F. We expect 9% growth in existing models (ex-Evoque) in FY13F to account for the improvement in Freelander volumes, which are currently impacted by production constraints. We expect FY13F EBITDA margins of 18.0% (12.6% earlier). Overall, we increase our EBITDA estimates by around 50% for FY13-14F.

Fig. 1: JLR estimates

	New			Old			% change		
	FY12E	FY13E	FY14E	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Volumes (Numbers)	307565	357217	379994	276544	310267	327405	11.2	15.1	16.1
Revenue (GBP m)	13284	15327	16650	11956	13454	14530	11.1	13.9	14.6
Realization/Vehicle (GBP)	43191	42906	43815	43232	43361	44380	(0.1)	(1.0)	(1.3)
YoY (%)	6.2	(0.7)	2.1	6.3	0.3	2.3			
EBITDA* (GBP m)	2,143	2,758	3,013	1,551	1,699	1,844	38.2	62.4	63.4
OPM (%)	16.1%	18.0%	18.1%	13.0%	12.6%	12.7%	3.2	5.4	5.4
PAT (GBP m)	1231.9	1544.5	1654.8	893.0	920.1	977.6	37.9	67.9	69.3

Note: * As per IFRS

Source: Nomura estimates

We expect Evoque volume of 85,000 in FY13F

We believe that current monthly Evoque volume of 8,500-9,000 units is partly driven by strong bookings on hand. We expect the monthly run rates to settle down to a lower level of around 7,000 incremental units per month next year. We expect Evoque sales volume of 85,000 units in FY13F and 90,000 units in FY14F. We believe that new launches generally peak around the second or third year of full-year sales. This was true for both BMW X1 launched in 2009 and BMW X3 in 2004. Even volumes of Audi Q5, which started production in 2008, continued to increase in CY11. Audi Q5 sales rose 20% y-y in 9MCY11.

Overall, sales volume of competing models (BMW X1, X3 and Audi Q5) were 100,000 plus each in CY10 and CY11. If Evoque manages to achieve such levels, there could be upsides to our estimates.

Fig. 2: A comparison of Evoque with BMW and Audi models

Features	Unit	BMW X1	BMW X3	Evoque	Audi Q3	Audi Q5
Displacement	cc	1995	1995	2200	1995	1995
Power	bhp	143	184	150	140	143
Co2 emissions	g/Km	136	147	133	138	162
Fuel efficiency	Ltr/100Km	5.2	5.6	5.0	5.2	6.2
Torque	N-m	320	380	380		
Top speed	mph	124	130	112		
Base variant price	GBP	24,420	31,440	27,955	24,560	28,000
Top variant price	GBP	31,425	42,225	38,380	31,360	40,765
Volumes						
CY10	000	100	46			109
CY11	000	126	118			131

Note: Audi Q5 volumes are for the first nine months of the year

Source: Company, JD Power estimates, Nomura research

Steady increase in the luxury car market share for JLR

JLR saw a steady increase in its luxury car market share from 5.5% to 7% over 2QCY10-4QCY11. In particular, the company has done very well in China – increasing its market share by more than 300bps over the same period last year. In our previous note, "Driving on Chinese Affluence" dated 21 Sep, 2011, we discussed how JLR was focusing to increase its market share in China. Increase in dealerships and models tailor made to Chinese customers preferences have helped the company improve market share in China, in our view. We also expect a possible JV announcement with a local player for assembly in China could come soon. This would help JLR cut import duties from 84% to 16% and thus address a much larger segment. We believe such a JV could become operational in FY14F.

Over the past quarter, market share has also been helped by the launch of new model Evoque in 3QCY11 which should continue to ramp up.

Fig. 3: JLR volume comparison with other Luxury OEMs

								YoY		
China volumes	**2QCY10**	**3QCY10**	**4QCY10**	**1QCY11**	**2QCY11**	**3QCY11**	**4QCY11**	**2QCY11**	**3QCY11**	**4QCY11**
JLR	5,131	5,365	8,196	8,222	9,525	10,880	14,817	86%	103%	81%
Total	**141,300**	**158,620**	**155,042**	**174,040**	**198,225**	**195,998**	**216,137**	**40%**	**24%**	**39%**
JLR's market share	**3.6%**	**3.4%**	**5.3%**	**4.7%**	**4.8%**	**5.6%**	**6.9%**			
US volumes	**2QCY10**	**3QCY10**	**4QCY10**	**1QCY11**	**2QCY11**	**3QCY11**	**4QCY11**	**2QCY11**	**3QCY11**	**4QCY11**
JLR	13,398	13,338	14,359	11,428	13,046	11,728	17,201	-3%	-12%	20%
Total	**158,285**	**164,751**	**173,294**	**160,584**	**176,123**	**171,715**	**218,315**	**11%**	**4%**	**26%**
JLR's market share	**8.5%**	**8.1%**	**8.3%**	**7.1%**	**7.4%**	**6.8%**	**7.9%**			
								YoY		
Europe volumes	**2QCY10**	**3QCY10**	**4QCY10**	**1QCY11**	**2QCY11**	**3QCY11**	**4QCY11**	**2QCY11**	**3QCY11**	**4QCY11**
JLR	29,251	24,608	27,393	31,839	24,716	30,629	34,789	-16%	24%	27%
Total	**594,790**	**519,884**	**566,752**	**552,341**	**634,921**	**547,157**	**590,914**	**7%**	**5%**	**4%**
JLR's market share	**4.9%**	**4.7%**	**4.8%**	**5.8%**	**3.9%**	**5.6%**	**5.9%**			
Overal Volumes										
JLR	59,201	55,134	63,155	66,131	62,090	68,000	86,322	5%	23%	37%
Total	**1,074,652**	**1,013,237**	**1,063,673**	**1,072,206**	**1,210,504**	**1,124,657**	**1,228,224**	**13%**	**11%**	**15%**
JLR's market share	**5.5%**	**5.4%**	**5.9%**	**6.2%**	**5.1%**	**6.0%**	**7.0%**			

Note: Market share above is based on the combined volumes of Audi, BMW, Mercedes and JLR

Source: Company data, Nomura estimates

Several new launches planned in FY14F which could lead to upside risks to our volume estimates

We have not built in additional volumes from the small Jaguar (Jag XE) which is expected to be launched in FY14F. We note that the small Jaguar will likely compete with the existing models like Audi A4, BMW 3 Series and Mercedes C class, which have a combined market volume of around 1.1mn vehicles. The company's current Jaguar XF model, which competes with Audi A6, BMW 5 Series and Mercedes E class (see Fig below), has a market share of around 3.5-4%, according to our calculations. If JLR is able to achieve similar market share in the new smaller Jaguar as well, volumes of Jag XE could be around 40,000 units, on our estimates. This would pose an upside risk to our current volume growth estimates of around 57,000 units (up 5% y-y) for Jaguar in FY14F. Similarly, JLR is coming up with five new models/variants in FY14F (see below); we have not factored in a potential significant increase in volume from these models.

Fig. 4: New launches for JLR and other competitors

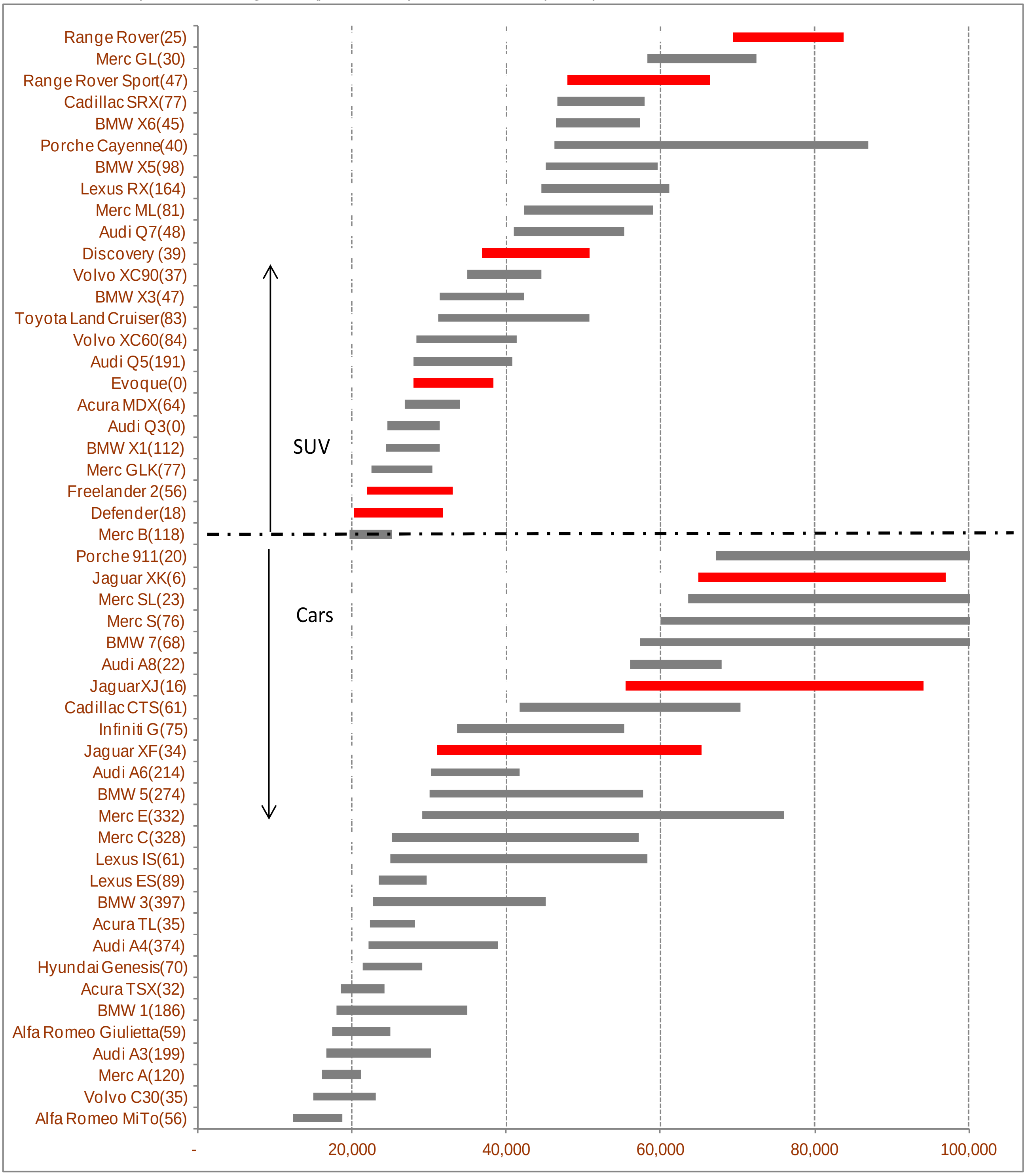
Text in bold represents launch of a new model; others represent facelift

	FY10	FY11	FY12F	FY13F	FY14F	FY15F
Jaguar XE			**BMW 3 F30/31** BMW 3 E90 Audi A4 AU481/2 **Merc C- Coupe 1** Acura TL 2FC **Lexus ES 041L** **Lexus IS 030L**	**BMW 3 - GT 1** Audi A4L AU481	**Jaguar XE 1** **Merc C W205** **Acura TL 2FC** **Hyundai Genesis BH**	**Audi A4 AU491/2** Lexus IS 030L
Jaguar XF		**Audi A6 AU571/2/6**	Jaguar XF X250 **Audi A6L C6**	**Infiniti G L53A**	BMW 5 - GT F07 Merc E- Coupe C207 Merc E- W212	**Jaguar Sub-XF X760** **Jaguar XF X251** Audi A6 AU571/2/6 Audi A6L C6
Jaguar XJ	**Jaguar XJ**			BMW 7 - F01/F02 **Merc S- Coupe C216**	Jaguar XJ X351 Audi A8 AU641 **Merc S- W222**	**BMW 7 - F01/F02**
Jaguar XK			**Merc SL- R231** **Porsche 911 998**	BMW 7 - F01/F02	**Jaguar XK8 X151** Audi A8 AU641	**BMW 7 - F01/F02**
Defender		**Audi Q3 AU316**	**Merc B- W246**		BMW X1 E84 Audi Q3 AU316 **Merc B- X156**	**Defender L317** Merc B- W246
Discovery	**Volvo XC90 P28**	**BMW X3 F25**	**Merc M- W166**		**Audi Q7 AU736**	BMW X3 F25 Merc M- W166 Volvo XC90 P28
Freelander 2		**Audi Q3 AU316**	**Merc B- W246**		**Freelander L359** BMW X1 E84 Audi Q3 AU316 **Merc B- X156**	Merc B- W246
Range Rover				**Range Rover L405** **Merc GL- X166**		
Range Rover Sport		**Porsche Cayenne PO726**		Lexus RX 642L	**Range Rover Sport L494** **BMW X5 F15** **BMW X6 F16** Porsche Cayenne PO726	**Lexus RX 642L** **Cadillac SRX T2YL**
Evoque		**BMW X3 F25**	**Evoque**	Audi Q5 AU416 **Acura MDX 2PF** Land Cruiser 404T	Land Cruiser Prado 611I	BMW X3 F25 **Volvo XC60 Y413**

Source: JD Power, Nomura research

Fig. 5: Models in the luxury SUV and car space

X axis indicates the prices in GBP; figures in () are annual production volume (in '000) in 2010



Source: JD Power, Nomura research

Factoring in 27% JLR volume growth in China in FY13F

We are building in 27% volume growth in China in FY13F. We factor in 20% growth in volume of older models (ex-Evoque) in China in FY13F. Also, we estimate 20% of Evoque sales to come from China.

Even though the growth rates would moderate from the 100% y-y growth seen so far in FY12 to 27% in FY13F, we expect volume contribution from China to increase to 20% in

FY13F (17% in 3QFY12). China being a much higher ASP market for the company, a higher sales mix would augur well for JLR's margins as well, in our view.

We note that despite a 27% decline in the passenger vehicles sales in China in Jan-12, the sales of luxury cars remained strong. The total luxury sales of Audi, BMW and Mercedes increased by 19% y-y in Jan-12. JLR's wholesale sales in China increased by around 50% y-y in Jan-12, according to the company.

Fig. 6: JLR volume estimates

	Sales volume			YoY (%)		
	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
North America	50,317	53,704	55,315	(4.2)	6.7	3.0
UK	49,934	52,145	53,710	(14.7)	4.4	3.0
Europe	44,495	47,254	48,672	(18.4)	6.2	3.0
Russia	14,331	15,112	15,566	22.2	5.4	3.0
China	45,152	54,498	62,278	67.8	20.7	14.3
Other	45,837	49,504	54,454	16.4	8.0	10.0
Total (Excl Evoque)	**250,065**	**272,217**	**289,994**	**2.6**	**8.9**	**6.5**
Evoque sales	57,500	85,000	90,000			
Total - Overall sales	307,565	357,217	379,994	**26.2**	**16.1**	**6.4**
Volume mix (%)						
North America	20.1	19.7	19.1			
UK	20.0	19.2	18.5			
Europe	17.8	17.4	16.8			
Russia	5.7	5.6	5.4			
China	18.1	20.0	21.5			
Other	18.3	18.2	18.8			

Source: Nomura estimates

Fig. 7: Y-Y growth of other luxury OEMs in China

	Audi	BMW	Mercedes	Total
Apr-11	21%	67%	47%	41%
May-11	45%	51%	43%	46%
Jun-11	29%	41%	19%	30%
Jul-11	35%	36%	-3%	24%
Aug-11	26%	9%	3%	14%
Sep-11	33%	21%	13%	24%
Oct-11	62%	34%	22%	41%
Nov-11	69%	11%	33%	38%
Dec-11	57%	9%	30%	33%
Jan-12	23%	31%	0%	19%

Source: Company data, Nomura research

Current margins are largely in line with competitors

While we note that the 17% reported EBITDA margins (IFRS) in 4QCY11 appears abnormally high, we believe it is also because of the lower R&D expensing that happens in the P&L compared with that of other global OEMs. The adjusted EBIT margin (based on 60% expensing of R&D) was 10.6% in 4QCY11 compared with around 13% for Audi and 12% for BMW (both in 3Q CY11). Even Mercedes – which has a lower margin – plans to improve its margins by 200bps to 10% in 2012F.

Fig. 8: EBIT margins for Luxury OEMS

EBIT margins (%)	2QCY10	3QCY10	4QCY10	1QCY11	2QCY11	3QCY11	4QCY11
Audi	9.2	11.1	11.4	10.6	12.9	13.1	
BMW	9.6	8.1	10.2	11.9	14.4	11.9	
Mercedes	9.8	9.5	8.3	9.3	10.7	8.0	8.2
JLR (adj for R&D)	7.3	8.3	9.3	7.8	5.7	6.0	10.6

Source: Company, Nomura research

Currency movements indicate a potential further 1% benefit for JLR margins in 4QFY12

JLR is a net importer of raw materials from Europe and, therefore, it gains if the euro depreciates vis-a-vis the GBP. Similarly, due to exports, JLR also gains if the CNY and USD appreciate against GBP. As per the data below, the euro has further depreciated by 2.7% from 3QFY12 levels and CNY and USD have appreciated by 1.2% and 0.4%, respectively. This implies an additional positive impact of around 1% on JLR margins in 4QFY12, according to our calculations.

Fig. 9: Currency movements and Impact on JLR's EBITDA margins

	Currency movements vis-à-vis GBP					Net exposure					Change in OPM	
	EUR	RUB	CNY	USD	ROW	EUR	RUB	CNY	USD	ROW	Implied	Actual
Q4FY11	0.6%	-3.4%	0.4%	1.5%	1.5%	-19%	5%	12%	17%	17%	-0.3%	-1.3%
Q1FY12	-3.2%	-2.6%	0.5%	1.8%	1.8%	-20%	5%	15%	21%	19%	-1.3%	-1.0%
Q2FY12	0.6%	2.8%	-2.6%	-1.3%	-1.3%	-24%	6%	18%	19%	19%	0.9%	1.0%
Q3FY12	2.4%	4.5%	-3.3%	-2.4%	-2.4%	-16%	5%	17%	20%	17%	1.6%	2.6%
Q4FY12F	2.7%	-2.4%	-1.2%	-0.4%	-0.4%	-16%	5%	17%	20%	17%	0.9%	

Source: Company data, Bloomberg, Nomura research

Standalone business continues to disappoint on weaker passenger vehicle business

We believe that rate tightening and a slowdown in IIP will affect CV growth in FY13F. Therefore, we reduce our volume growth estimates to 5% for FY13F (from 8% earlier). Our total volume growth estimates are higher as we increase our volume growth estimates for the passenger vehicles segment (including Nano).

Overall, for the standalone business, we reduce our EPS estimates by 27% for FY12F and by 34% for FY13F. The reduction in our estimates is due to the cut in our EBITDA margins forecasts to 7.1% for FY12F (from 9.3%) and to 7.5% for FY13F (from 9.6%) owing to higher raw material cost and weaker-than-expected performance of the passenger vehicle segment. Note that we estimate a margin improvement of around 110bps in FY13F from the current levels (6.4% in 3QFY12) as we expect some reduction in losses in the passenger vehicle segment.

Fig. 10: Standalone estimates

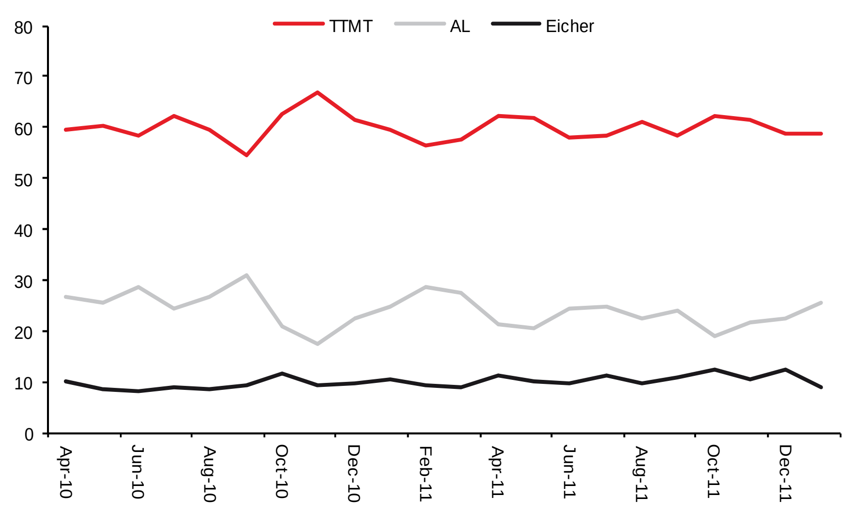
	New			Old			% change		
	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Standalone									
MHCV volumes	226,284	237,598	256,606	226,284	244,386	262,869	-	(2.8)	(2.4)
% YoY	8.0%	5.0%	8.0%	8.0%	8.0%	7.6%			
LCV volumes	367,953	412,107	453,318	373,702	429,757	459,840	(1.5)	(4.1)	(1.4)
% YoY	28.0%	12.0%	10.0%	30.0%	15.0%	7.0%			
Car Volumes	192,842	202,484	218,683	154,274	161,987	174,946	25.0	25.0	25.0
% YoY	0.0%	5.0%	8.0%	-20.0%	5.0%	8.0%			
UV Volumes	47,369	52,106	56,275	43,063	47,369	51,159	10.0	10.0	10.0
% YoY	10.0%	10.0%	8.0%	0.0%	10.0%	8.0%			
Nano volumes	70,000	105,000	120,750	60,000	69,000	75,900	16.7	52.2	59.1
% YoY	-0.6%	50.0%	15.0%	-14.8%	15.0%	10.0%			
Total Volumes	974,448	1,114,295	1,226,381	917,322	1,021,500	1,100,614	6.2	9.1	11.4
% YoY	11.5%	14.4%	10.1%	5.0%	11.4%	7.7%			
Revenue (INR mn)	543,120	594,792	656,507	524,502	583,303	637,726	3.5	2.0	2.9
EBITDA (INR mn)	38,614	44,847	50,804	48,722	55,885	62,413	(20.7)	(19.8)	(18.6)
OPM(%)	7.1%	7.5%	7.7%	9.3%	9.6%	9.8%	(2.2)	(2.0)	(2.0)
EPS (INR)	4.7	5.0	6.0	6.4	7.7	8.8	(26.6)	(34.1)	(31.7)

Source: Nomura estimates

Commercial vehicles segment remains strong

TTMT has been able to maintain its stronghold on the MHCV space. Its market share has been steady at around 60% despite increased competition from Mahindra and Eicher Motors. The company has regularly taken price increases in this segment to maintain margins. Also, it has been leading the space in terms of technology and new product introduction. While we expect FY13F to be a slow year for MHCVs, we believe that TTMT will be able to maintain market share.

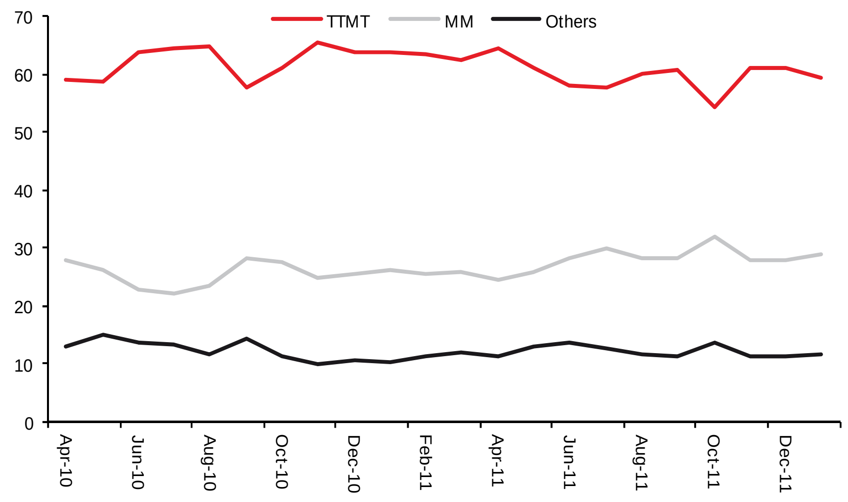
Fig. 11: Market share (%) in domestic MHCVs



Source: SIAM, Nomura research

Within the LCV space TTMT has had to face increased competition from new products like Mahindra's Maxximo and Ashok Leyland's Dost. There has been some loss of market share in this segment, but the company maintained 28% volume growth in the first 10 months of FY12. TTMT plans to launch the World LCV and variants of the ACE family to sustain the volume momentum. We expect 12% volume growth for TTMT's LCV portfolio in FY13F.

Fig. 12: Market share (%) in domestic LCVs



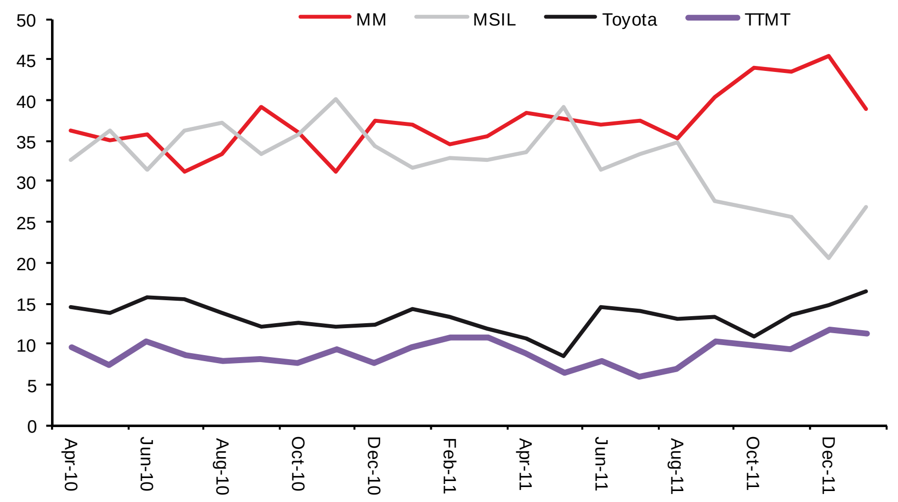
Source: SIAM, Nomura research

Not factoring in much improvement in the passenger vehicles segment

We believe TTMT's domestic performance has been seriously hampered by the weak performance of the passenger vehicle division. The company is facing the brunt of increased competition in the mainstream car segments. In our view, given the competitive intensity, this business will require continuous supply of new products and thus high capex to sustain volume. TTMT launched a refreshed version of Tata Vista in August 2011 and a new model of Indigo in Sept-11. It also launched Sumo Gold in Nov-11 and Tata Nano (refresh) in Nov-11. The company is also looking to launch the diesel variant of Nano which could improve volume for the segment, in our view. However, the discount levels in passenger vehicles have increased significantly over FY11. We believe that the current situation is unsustainable and causing a big drag on domestic margins. Standalone margins are down from 9.7% in FY11F to 7% in 3QFY12. In our view, the entire decline in margins may be due to the PV division where the EBITDA losses may be close to INR8bn per annum.

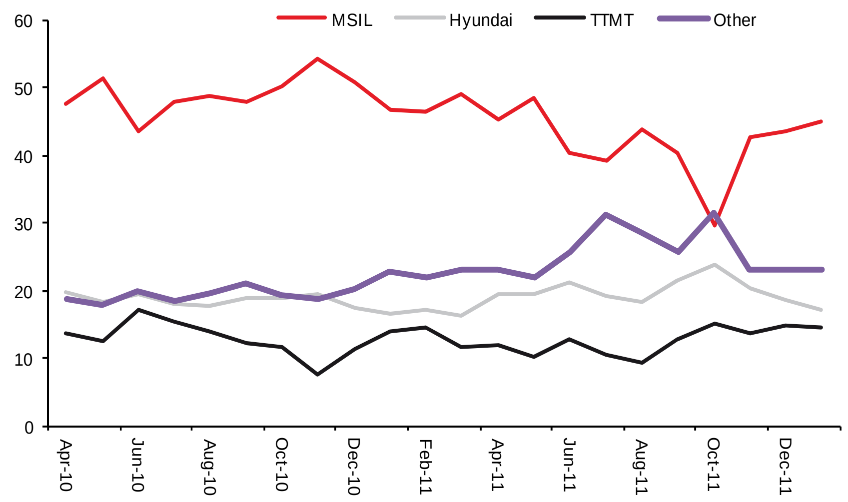
We believe the current situation is unsustainable and the company may decide in the future to operate in fewer segments where it can be profitable. This could lead to an improvement in domestic margins as well as higher return on future capex, in our view. However, we have been conservative in not building in any significant improvement in our margin estimates over the next couple of years.

Fig. 13: Market share (%) in domestic utility vehicles (UVs)



Source: SIAM, Nomura research

Fig. 14: Market share (%) in domestic cars segment



Source: SIAM, Nomura research

Consolidated earnings estimates increase by 50% for FY13F

We increased our consolidated EPS estimates by 25% to INR34.3 for FY12F (INR27.4 earlier) and by 50% to INR44.0 for FY13F (from INR29.4) largely due to the increase in our estimates for the JLR business. We increase our JLR PAT estimates by 38% for FY12F and 68% for FY13F. JLR now accounts for ~85% of our consolidated estimates, according to our calculations. We note that GBP's appreciation against INR has led to around a 6% increase in our consolidated EPS estimates.

Our FY13F consolidated EPS estimates are around 17% above consensus. Consensus is building in 17% margins for JLR, which is conservative, in our view. We expect consensus to upgrade earnings estimates if JLR reports strong margins in 4QFY12 and volume growth remains robust over the next few months.

Fig. 15: Our consolidated estimates are ahead of consensus

Standalone									
INR mn	Nomura			Consensus			% Difference		
	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Sales	543,120	594,792	656,507	530,823	598,765	680,182	2.3	-0.7	-3.5
EBITDA	38,614	44,847	50,804	40,290	48,601	58,374	-4.2	-7.7	-13.0
OPM	7.1%	7.5%	7.7%	7.6%	8.1%	8.6%	-0.5%	-0.6%	-0.8%
PAT	14,984	16,096	19,266	13,498	18,305	23,013	11.0	-12.1	-16.3

Consolidated									
INR mn	Nomura			Consensus			% Difference		
	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Sales	1,622,788	1,891,914	2,066,115	1,558,363	1,776,170	1,985,639	4.1	6.5	4.1
EBITDA	210,274	274,408	301,596	211,324	241,846	271,786	-0.5	13.5	11.0
OPM	13.0%	14.5%	14.6%	13.6%	13.6%	13.7%	-0.6%	0.9%	0.9%
PAT	109,507	140,417	152,654	108,775	120,383	131,181	0.7	16.6	16.4

Source: Bloomberg, Nomura estimates

Maintain Buy with a new TP of INR326; offers 19% upside potential from current levels

We increased our TP for TTMT to INR326 from INR200 earlier. The increase is driven by four key reasons:

1) We increase our EBITDA estimates for the JLR business by ~60% for FY13-14F as we factor in our strong volume and margin expectations

2) We also increase our EV/EBITDA multiple for JLR to 3.0x (from 2.5x) to factor in the improvement in our valuations for other luxury OEMs and the stronger-than-expected performance of JLR. The higher JLR multiples have added around INR30 to our target price.

3) We roll forward our target price to Mar-13 from Mar-12 earlier. The roll-forward of the target price to FY14F earnings has added INR50 to our target price.

4) GBP appreciation against INR, which has added around INR10 to our target price.

Overall, our valuation for the JLR business has increased to INR219.3/share (from INR73.1). We reduce our standalone EBITDA estimates which has led to lower valuation for the standalone business.

Our 12-month forward TP of INR326 is calculated using the sum-of-the-parts methodology (methodology unchanged). We value the standalone business at INR80.0 on 8.0x FY14F EV/EBITDA and JLR at INR219.3 at 3.0x FY14F EV/EBITDA. We value other investments at INR26.8.

We note that based on our valuation, JLR is valued at 7.2x FY13F adjusted P/E compared with the sector average of 7.9x. Also, the FCF yield of JLR at 8.6% for FY13F is in line with the sector average of 9.1%.

Fig. 16: SOTP-based valuation of TTMT

New Valuation		
Standalone Valuation	INR m	
Standalone EBITDA FY14F	50,804	
Multiple	8.0	
Standalone EV	406,429	
Standalone Net Debt	151,265	
Standalone equity value	255,164	
Value / Share (INR)	**80.0**	
JLR Valuation		(GBP m)
EBITDA (FY14)	241,044	3,013
Normalized R&D expense (60% expensed)	34,608	433
Normalized EBITDA	206,437	2,580
Multiple (x)	3.0	
EV	619,311	7,741
Debt	(79,906)	(999)
Equity Value	699,217	8,740
Value / Share (INR)	**219.3**	
Value of stake in Tata Sons and Tata Steel (INR/Sh)	**7.1**	
Value of Subsidiaries (INR/Share)	**19.7**	
Total Value	**326.0**	

New Valuation		
Standalone Valuation	INR m	
Standalone EBITDA FY13E	55885	
Multiple	8.0	
Standalone EV	447082	
Standalone Net Debt	145279	
Standalone equity value	301803	
Value / Share (INR)	**94.7**	
JLR Valuation		(GBP m)
EBITDA (FY13)	137971	1840
Normalized R&D expense (60% expensed)	43981	586
Normalized EBITDA	93991	1253
Multiple (x)	2.5	
EV	234977	3133
Debt	1748	23
Equity Value	233229	3110
Value / Share (INR)	**73.1**	
Value of stake in Tata Sons and Tata Steel (INR/Sh)	**6.2**	
Value of Subsidiaries (INR/Share)	**25.6**	
Total Value	**200.0**	

Source: Nomura estimates

Fig. 17: Valuation of European OEMs

	Ticker	Rating	Price (LC)	EBITDA growth		EV/EBITDA			EV/sales			P/E			FCF Yield		
				FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
BMW	BMW GR	NR	69.1	-5.0%	1.6%	2.5	2.6	2.5	0.52	0.47	0.42	9.0	9.3	8.9	8.9%	8.4%	7.3%
Daimler	DAI GR	NR	46.3	-1.6%	12.2%	2.8	2.8	2.5	0.34	0.30	0.27	8.9	7.8	7.2	7.6%	9.8%	14.9%
Volkswagen	VOW3 GY	NR	138.4	1.0%	10.9%	3.2	3.2	2.8	0.41	0.38	0.27	7.5	6.6	5.8	10.1%	9.2%	15.8%
Average				**-1.9%**	**8.2%**	**2.8**	**2.9**	**2.6**	**0.42**	**0.38**	**0.32**	**8.5**	**7.9**	**7.3**	**8.9%**	**9.1%**	**12.7%**
JLR	**Unlisted**	**NR**		**36.7%**	**11.3%**	**4.6**	**3.3**	**3.0**	**0.58**	**0.51**	**0.46**	**9.8**	**7.2**	**6.6**	**6.7%**	**8.6%**	**11.5%**

Note: Pricing as of 27 February 2012; JLR multiples are adjusted for R&D expenditure

Source: Bloomberg consensus estimates for NR stocks

Sensitivity analysis

Our target price for TTMT is highly sensitive for JLR margins and valuations multiples. The table below provides target price sensitivity to these variables.

Fig. 18: TP sensitivity to JLR multiple and margins

		JLR FY14F EV/EBITDA multiple			
		2.5	**3.0**	**3.5**	**4.0**
JLR FY13F	**16%**	266	294	322	350
EBITDA	**17%**	279	309	339	370
margins	**18%**	293	325	357	389
(IFRS)	**19%**	306	340	375	409

Source: Nomura research

Key risks

Downside risks

JLR's volumes weakening: JLR's margins are highly sensitive to volumes because of its high operating leverage. We assume JLR will be able to sustain strong volume growth. If volumes fall short of our assumptions, there could be a material downside risk to our estimates.

Risks from a **global growth slowdown:** Our base case scenario assumes slow and steady GDP growth in Europe and the US. If the economic growth in developed economies is weaker than expected or economies slip into a recession, there could be significant downside risks to our earnings estimates.

Slower-than-expected growth in China: Slower-than-expected growth in China volumes can lead to downside risks to our earnings estimates.

Unfavorable currency movements: JLR is a net importer of raw materials from Europe, and therefore, it gains if the euro depreciates vis-a-vis the GBP. Similarly, due to exports, JLR also gains if the CNY and USD appreciate against the GBP. If currencies move significantly in the opposite direction, there could be downside risks to our margin estimates.

3QFY12 results – Results above expectations on strong JLR performance

TTMT reported adj. consolidated PAT of INR35.7bn in 3QFY12 was significantly higher than our and consensus estimates. There was a forex loss of INR1.64bn during the quarter; our numbers are adjusted for the same.

The beat was due to better-than-expected performance of the JLR business driven by higher margins and realizations. As per IFRS, JLR's 3QFY12 EBITDA margins came in at 17%. However, as per the company, EBITDA (under IFRS) was lower by GBP60mn due to a one-off forex loss on revaluation of long-term monetary liabilities. Adjusted for this, margins were 18.6%, 340bps higher than our 15.2% estimate. As per the company, this is due to better product and geographical mix, as well as currency benefits.

Key takeaways from conference call

JLR

- As per the company, the difference in EBITDA margins between IFRS (17%) and India GAAP (20.1%) was not due to any one-off losses related to AS-11 (Accounting Standard). The difference was due to: 1) product development expenses of GBP43mn are accounted for below EBITDA in Indian GAAP; and 2) IFRS EBITDA is after foreign exchange losses of around GBP60mn related to revaluation of long-term monetary liabilities, which is a one-off expense; however, in Indian GAAP, the one-off forex loss is accounted for below EBITDA.
- JLR's China sales volume increased 88% y-y in 3QFY12 and the company expects China to remain quite a growth driver for the company.
- As per the company, JLR will launch more than 30 new products/variants over the next 3-5 years. This should support volumes, in our view.
- Sales volume of the Freelander model declined 35% y-y in 3QFY12 as more production was diverted towards Evoque. There is no demand pressure, as per the company.

Standalone

- Margins during the quarter were impacted by higher marketing expenses. The company has taken a price increase on 1% on CVs and around 2% on PVs which should support margins going forward, in our view.
- As per management, although there is some demand pressure in some MHCV segments, the company continues to expect 8-10% growth ahead.
- Strong growth in LCVs is expected to continue and management expects improvement in the passenger vehicle segment due to the introduction of new model variants.

Key result details

JLR: Strong results driven by higher-than-expected margins

- JLR revenues came in at GBP3,749mn compared to our estimate of GBP3,539mn
- ASP came in at GBP43,430 per vehicle; 6% above our expectation of GBP41,000
- JLR adj EBITDA came in at GBP699mn (adj for one-off forex loss of GBP60mn) compared to our estimate of GBP 572mn
- Adjusted EBITDA margins at 18.6% were above our estimate of 15.2%
- Adjusted JLR PAT was GBP379mn compared to our estimate of GBP331mn.

Standalone business: Margins disappoint on higher other expenses

- Net sales at INR133.3bn were lower than our estimate of INR136.4bn
- EBITDA came in at INR8.5bn, much lower than our estimate of INR9.7bn
- EBITDA margins at 6.4% compared to our estimate of 7.1% due to higher other expenditure
- Adj PAT came in at INR2.56bn, compared to our estimate of INR3.0bn
- During the quarter, there was a one-off forex loss of INR0.83bn
- RM/Sales came in at 73.9% compared to our estimate of 74.0%
- Employee cost/sales came in at 5.2% compared to our estimate of 5.1%
- Other expenses/sales came in at 14.5% compared to our estimate of 13.8%

Fig. 19: 3QFY12 consolidated results – Actual vs. estimates

	INRmn			% difference from	
	Actual	Consensus	Nomura	Consensus	Nomura
Net Sales	452,603	419,558	449,099	7.9%	0.8%
Adj PAT	35,699	26,666	28,962	33.9%	23.3%

Source: Company data, Bloomberg, Nomura estimates

Fig. 20: Standalone 3QFY12 results review

INR mn	3QFY11A	2QFY12A	3QFY12A	Q/Q	Y/Y	3QFY12F
Net Sales and Op. income	**115,199**	**129,538**	**133,379**	**3.0%**	**15.8%**	**136,433**
(Inc)/Dec in Stocks	1,450	(319)	(4,351)			-
Raw Materials	79,220	96,080	102,951			-
Net Raw Materials	80,671	95,761	98,600	3.0%	22.2%	100,961
RM/Sales	**70.0%**	**73.9%**	**73.9%**	**0.0%**	**3.9%**	**74.0%**
Staff Welfare	5,809	6,829	6,950	1.8%	19.6%	6,958
Other Costs	17,033	18,219	19,311	6.0%	13.4%	18,828
Total Cost	103,513	120,809	124,861	3.4%	20.6%	126,747
Operating Profit	**11,686**	**8,729**	**8,518**	**-2.4%**	**-27.1%**	**9,687**
OPM (%)	***10.1***	***6.7***	***6.4***	***-35.3%***	***-375.8%***	***7.1***
Non-Operating Income	54	568	250			60
Extraordinary Income(+Forex)	-	(2,942)	(833)			-
Extraordinary Expense	305	-	-			-
Interest	2,749	2,121	1,860	-12.3%	-32.3%	2,121
Gross Profit	8,686	4,234	6,075	43.5%	-30.1%	7,625
Less: Depreciation	3,371	3,869	4,213	8.9%	25.0%	3,869
Amortisation	-	-	-			-
PBT	5,315	365	1,862	**410.2%**	**-65.0%**	3,756
Tax	1,211	(655)	125			751
Effective Tax Rate (%)	22.8	-179.5	6.7			20.0
PAT	**4,104**	**1,020**	**1,737**	**70.2%**	**-57.7%**	**3,005**
Adj PAT	**4,339**	**3,962**	**2,569**	**-35.2%**	**-40.8%**	**3,005**

Source: Company data, Nomura estimates

Fig. 21: Ratios – Standalone business

(%)	3QFY11A	2QFY12A	3QFY12A	Q/Q	Y/Y	3QFY12F
Staff cost / sales	5.0	5.3	5.2	-6.1%	-44.6%	5.1
Other expenses / sales	14.8	14.1	14.5	41.4%	2.2%	13.8
RM / SALES	70.0	73.9	73.9	0.0%	-42.5%	74.0
Total	89.9	93.3	93.6	35.3%	-84.9%	92.9
OPM	10.1	6.7	6.4	-35.3%	-375.8%	7.1
Gross margins	30.0	26.1	26.1	0.0%	42.5%	26.00
Realisation per vehicle (INR)	616,793	620,578	583,282	-6.0%	-5.4%	600,735
Raw Material/ Vehicle (INR)	431,925	458,762	431,189	-6.0%	-0.2%	444,544
Operating Profit/Vehicle (INR)	62,567	41,819	37,248	-10.9%	-40.5%	42,652

Source: Company data, Nomura estimates

Financials for Jaguar and Land Rover

Fig. 22: JLR – P&L (GBP mn)

Year ended 31 Mar	FY11	FY12F	FY13F	FY14F
Total Volumes (Numbers)	243621	307565	357217	379994
YoY	25.6%	26.2%	16.1%	8.0%
Net Sales/vehicle (GBP)	40658	43191	42906	43815
	20.3%	6.2%	-0.7%	2.1%
(GBP mn)				
Total Revenue	9905	13284	15327	16650
YoY	51.1%	34.1%	15.4%	8.6%
RM cost	6195	8568	9809	10656
Product dev cost	122	146	154	161
Employee cost	800	968	1045	1150
Other exp	1291	1458	1560	1670
Total cost	8408	11141	12569	13637
EBITDA (excl product dev exp)	1620	2290	2912	3174
Margin	16.4%	17.2%	19.0%	19.1%
EBITDA*	1498	2143	2758	3013
EBITDA margin	15.1%	16.1%	18.0%	18.1%
Depreciation	380	480	637	742
interest	37	104	89	35
PBT	1099	1559	2032	2236
tax	82	327	488	581
PAT	1044	1232	1545	1655
cash earnings	1424	1712	2182	2397
Capex	-804	-1500	-1500	-1500
Excess/(Shortfall)	619	212	682	897

Note: * As per IFRS

Source: Company data, Nomura estimates

Fig. 23: JLR – Balance Sheet (GBP mn)

Year ended 31 Mar	FY11	FY12F	FY13F	FY14F
Secured	824.3	824.3	824.3	824.3
Un Secured	436.7	568.4	67.1	(776.1)
Total Loans	1,261.0	1,392.7	891.4	48.1
Total Funds	2,941.3	4,304.8	5,348.1	6,159.6
Gross Fixed Assets	6,103.9	7,603.9	9,103.9	10,603.9
Acc. Depreciation	4,103.5	4,583.3	5,220.6	5,962.8
Net Fixed Assets	2,000.4	3,020.6	3,883.3	4,641.1
CWIP	1,030.3	1,030.3	1,030.3	1,030.3
Fixed Assets	3,030.6	4,050.8	4,913.6	5,671.3
Goodwill	375.8	375.8	375.8	375.8
Investments	105.3	105.3	105.3	105.3
Inventories	1,151.8	1,565.0	1,805.6	1,961.5
Sundry Debtors	561.7	753.3	881.8	957.9
Cash and Bank Balances	923.3	1,638.3	1,890.2	2,053.3
Loans & Advances	472.5	633.7	755.8	821.1
Current Assets	3,109.9	4,590.9	5,334.1	5,794.4
Current Liabilities	2,909.9	3,821.5	4,283.1	4,652.8
Provisions	825.1	1,051.2	1,152.2	1,189.1
Total Current Liabilities	3,735.0	4,872.7	5,435.3	5,841.8
Net Current Assets	(625.0)	(281.7)	(101.2)	(47.4)
Deferred Tax Assets	54.6	54.6	54.6	54.6
Total Assets	2,941.3	4,304.8	5,348.1	6,159.6

Source: Company data, Nomura estimates

Fig. 24: JLR – Cash Flow (GBP mn)

Year ended 31 Mar	FY11	FY12F	FY13F	FY14F
PAT	1,044	1,232	1,545	1,655
Depreciation	380	480	637	742
(Profit)/Loss on sale of Assets	-	-	-	-
Net Income Tax	82	327	488	581
Interest	37	104	89	35
Pension costs	-	-	-	-
Exchange Difference	-	-	-	-
	499	911	1,214	1,358
Operating Profit	1,542	2,143	2,758	3,013
(inc)/dec in WC	347	(343)	(181)	(54)
Tax refund (paid)	(82)	(327)	(488)	(581)
Cash from operations	1,807	1,473	2,090	2,378
	-	-	-	-
(Purchase) of Fixed Assets	(804)	(1,500)	(1,500)	(1,500)
Sale of Fixed Assets	-	-	-	-
Interest received	-	-	-	-
Purchase of JLR	-	-	-	-
Net Cash from Investing	(804)	(1,500)	(1,500)	(1,500)
	-	-	-	-
Issue of Pref shares	-	-	-	-
Increase in borrowings	(966)	132	(501)	(843)
Issue of ordinary shares	-	-	-	-
Dividend Paid	-	-	-	-
Interest paid	(37)	(104)	(89)	(35)
Net cash used in Financing	(1,003)	27	(590)	(878)

Source: Company data, Nomura estimates

Standalone Financials

Fig. 25: Standalone – P&L (INR mn)

Year ended 31 Mar (Rs mn)	FY10	FY11	FY12F	FY13F	FY14F
Net sales	**355,931**	**480,405**	**543,120**	**594,792**	**656,507**
growth (%)	39.7	35.0	13.1	9.5	10.4
Operating expenses	(315,588)	(433,753)	(504,506)	(549,945)	(605,704)
Operating profit (EBITDA)	**40,343**	**46,652**	**38,614**	**44,847**	**50,804**
Depreciation	(10,339)	(13,608)	(15,656)	(17,497)	(19,171)
EBIT	**30,004**	**33,044**	**22,958**	**27,350**	**31,633**
Other income	18,535	1,833	2,088	2,186	2,290
Interest paid	(11,038)	(11,440)	(8,758)	(9,416)	(9,840)
Pre-tax profit	**37,500**	**23,437**	**16,287**	**20,120**	**24,083**
Extraordinary income(expense)	(9,205)	(1,471)	-	-	-
PBT after extraordinary	28,295	21,965	16,287	20,120	24,083
Tax (current + deferred)	(5,895)	(3,847)	(1,303)	(4,024)	(4,817)
Profit after tax	**22,401**	**18,118**	**14,984**	**16,096**	**19,266**
Adj. PAT	31,605	19,590	14,984	16,096	19,266
Adj. PAT ex subsidiary dividends	31,529	18,298	14,015	15,078	18,197
growth (%)	2,782.1	(42.0)	(23.4)	7.6	20.7

Source: Company data, Nomura estimates

Fig. 26: Standalone – Balance Sheet (INR mn)

Year ended 31 Mar (Rs mn)	FY10	FY11	FY12F	FY13F	FY14F
Current assets	115,380	140,906	160,482	175,479	193,523
Investments	223,369	226,242	226,242	226,242	226,242
Net fixed assets	164,360	174,756	191,801	202,004	210,533
Other non-current assets	-	-	-	-	-
Total assets	**503,109**	**541,905**	**578,524**	**603,725**	**630,298**
Current liabilities	188,812	182,784	200,880	216,326	234,937
Total Debt	166,259	158,988	174,660	181,352	191,466
Other liabilities	(1,617)	-	-	-	-
Total liabilities	**353,455**	**341,772**	**375,540**	**397,677**	**426,403**
Share capital	5,706	6,377	6,377	6,377	6,377
Reserves & surplus	143,949	193,756	196,607	199,671	197,518
Shareholders' funds	**149,655**	**200,133**	**202,985**	**206,048**	**203,895**
Minorities	4,683	4,030	2,135	2,466	2,724
Total equity & liabilities	**503,109**	**541,905**	**578,524**	**603,725**	**630,298**

Source: Company data, Nomura estimates

Fig. 27: Standalone – Cash Flow (INR mn)

Year ended 31 Mar (Rs mn)	FY10	FY11	FY12F	FY13F	FY14F
PAT	22,401	18,118	14,984	16,096	19,266
less: Proposed dividend	9,919	14,670	12,133	13,033	15,600
Depreciation	10,339	13,608	15,656	17,497	19,171
Operating cashflow	**22,820**	**17,056**	**18,507**	**20,560**	**22,837**
Change in WC	(53,336)	31,555	1,480	(448)	(568)
Change in fixed assets (Capex)	27,898	22,929	32,700	27,700	27,700
Change in Intangibles	(20)	-	-	-	-
Free cash flow	**48,279**	**(37,428)**	**(15,673)**	**(6,692)**	**(4,295)**
Financing Cashflow					
Increase in debt	31,360	(6,731)	15,673	6,692	10,114
Less: Increase in Investments	93,688	2,873	-	-	-
Increase in share capital	566	671	-	-	-
Increase in share premium	13,483	46,361	-	-	(5,819)
Others	-	-	-	-	-
Financing Cashflow	**(48,279)**	**37,428**	**15,673**	**6,692**	**4,295**

Source: Company data, Nomura estimates

Appendix A-1

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We, Kapil Singh and Nishit Jalan, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Tata Motors	TTMT IN	INR 273	28-2-2012	Buy	Not rated	A6

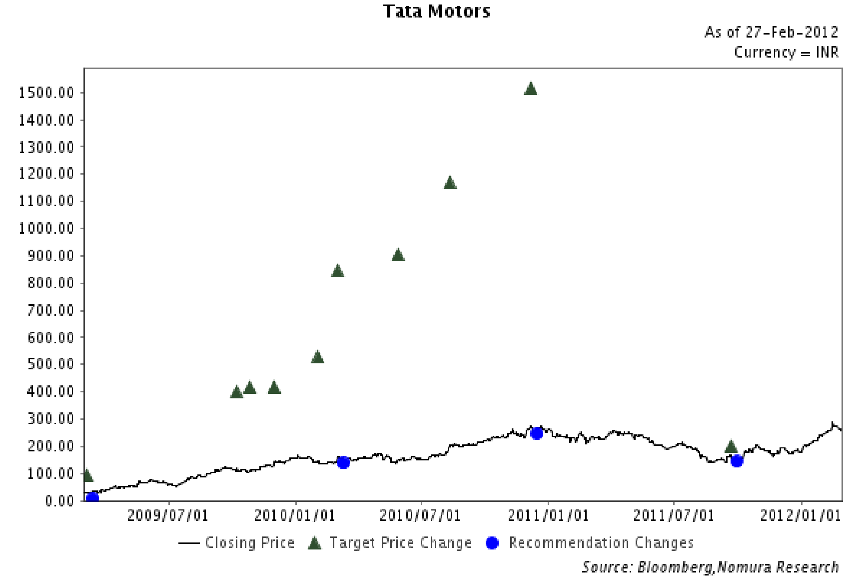
A6 A Nomura Group Company expects to receive or intends to seek compensation for investment banking services from the issuer in the next three months.

Previous Rating

Issuer name	Previous Rating	Date of change
Tata Motors	Neutral	21-9-2011

Tata Motors (TTMT IN) **INR 273 (28-2-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
21-Sep-11	Buy		164.85
21-Sep-11		200.00	164.85
07-Dec-10	Neutral		267.08
07-Dec-10		1,514.00	267.08
11-Aug-10		1,167.00	201.34
28-May-10		906.00	149.90
02-Mar-10	Buy		159.61
02-Mar-10		844.00	159.61
02-Feb-10		526.00	141.89
30-Nov-09		419.00	132.63
26-Oct-09		418.80	107.88
07-Oct-09		400.00	111.66
05-Mar-09	Reduce		27.87
05-Mar-09		92.50	27.87

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our 12-month forward TP of INR326 is calculated using the sum-of-the-parts methodology. We value the standalone business at INR80.0 on 8.0x FY14F EV/EBITDA and JLR at INR219.3 at 3.0x FY14F EV/EBITDA. We value other investments at INR26.8.

Risks that may impede the achievement of the target price Downside risks JLR's volumes weakening: JLR's margins are highly sensitive to volumes because of its high operating leverage. We assume JLR will be able to sustain the strong volume growth. If volumes fall short of our assumptions, there could be a material downside risk to our estimates. Risks from a global growth slowdown: Our base case scenario assumes a slow and steady GDP growth in Europe and the US. If the economic growth in developed economies is weaker than expected or economies slip into a recession, there could be significant downside risks to our earnings estimates. Slower than expected growth in China: Slower than expected growth in China volumes can lead to downside risks to our earnings estimates. Unfavorable currency movements: JLR is a net importer of raw materials from Europe and therefore, it gains if Euro depreciates vis-a-vis GBP. Similarly, due to exports, JLR also gains if CNY and USD appreciates against GBP. If currencies move significantly in the opposite direction, there could be downside risks to our margin estimates.

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

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