

Equities

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Tata Motors (TTM)

Alert: Takeaways from Investor Meetings at New York and Boston

■ ADR

- **What's New?** — Citigroup hosted Tata Motors and Jaguar Land Rover managements at New York and Boston for investor meetings. Key takeaways below:
- **JLR volume outlook is healthy** — Mgmt is cautiously optimistic on JLR volumes, in the backdrop of current global macro environment. While volumes in the UK and EU markets have seen slight moderation, the overall demand scenario appears stable in the near term. China sales have shown encouraging growth and should boost volumes as well as profitability. Mgmt noted that the response to the newly launched Evoque is encouraging (around 25,000 orders) and should mitigate volume losses in EU. Mgmt also stated that while JLR could explore India for design engineering, sourcing of auto components, IT outsourcing etc., the UK will remain the primary manufacturing geography.
- **Domestic CV demand remains healthy...** — Despite a slowdown in industrial activity and higher interest rates, CV demand scenario in India appears healthy, for now. Specifically, smaller commercial vehicles have reported a very strong growth (we believe, driven by the Ace and its variants). While growth momentum has decelerated when compared with the trends witnessed in FY11, the CV segment has been more resilient to the adverse macro than passenger vehicles. Customers have been able to absorb price hikes as well as costlier vehicle finance. That said, cut in liquidity by banks could dampen demand in the CV segment. Mgmt also acknowledged growing competition in the segment, alluding to the setting up of Bharat Benz in India by Daimler. In the bus segment, new orders have subsided from STUs as well as private operators. However, mgmt does not plan to increase discounts to buoy sales in the domestic market.
- **...while PV volume deceleration is a concern** — Mgmt expressed concerns on demand in the domestic PV segment, where TAMO's market share has reduced to 10-12% from 16-17%. This segment has also been highly impacted by interest rate hikes. Specifically on the Nano, TAMO has introduced additional protective measures to address issues of smoke / fire in the car and expect sales volumes to pick up from the current 5,000-7,000. In order to revive sales, the company plans to increase brand publicity & promotion while expanding the dealership network, in the short term. Over the longer term, mgmt aims to increase frequency of new model launches, enter new segments and improve overall product quality.
- **TAMO to increase domestic capex** — Mgmt believes that the domestic CV business has been underinvested in the past and has thus increased capex. While expecting the capex to be funded through internal accruals, mgmt could curtail capital expenditure if macro environment deteriorates further.

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Tata Motors

Valuation

Our \$4.79¹ target price for Tata Motors is based on a sum-of-the-parts valuation. We value Tata Motors' core business at \$2.58 per ADR (on a ADR count of 659 million ADRs), based on 7x Mar13E EV/EBITDA. We value subsidiaries and investments at \$0.36. We attribute around \$1.85 per ADR to JLR - we value this at 3x Mar13E EV/EBITDA, which equates to around \$2.52 per ADR and then deduct the total net debt which amounts to around \$0.67 per ADR. At our target price, TTMT would trade at a consolidated price-to-book value of 2.8x / 2.1x (FY12/13E), which appears reasonable when juxtaposed against ROEs of 32%, 28% in FY12E/13E respectively. On a P/E basis, the ADR would trade at around 8.6x and 7.5x FY12E/13E EPADR.

Risks

Our quantitative risk rating system, which tracks 260-day historical ADR price volatility, suggests a Low Risk rating for Tata Motors ADRs. We assign a Medium Risk flag, as a) JLR is exposed to risks of a global macro slowdown, b) competitive intensity from JLR's peer group is increasing, c) cyclical risks within the CV business are increasing. The key downside risks to our estimates that could prevent the ADRs from reaching our target price emanate from: a) Weaker-than-forecast demand conditions for luxury cars and SUVs in Europe and the U.S. Given the high leverage of this business to both volumes and EPADR, the key risk is if JLR volumes are lower than anticipated; b) Our CV forecasts are predicated on our economist Rohini Malkani's view that industrial growth should rebound from 2HFY12. c) 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 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.

¹ FX Rate Used: INR: 47.65, ADR-Ord Ratio: 1:1

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Tata Motors (TAMO.BO)

Ratings and Target Price History Fundamental Research

Analyst: Jamshed Dadabhoy



Chart current as of 14 September 2011

	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

	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

* Indicates change

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

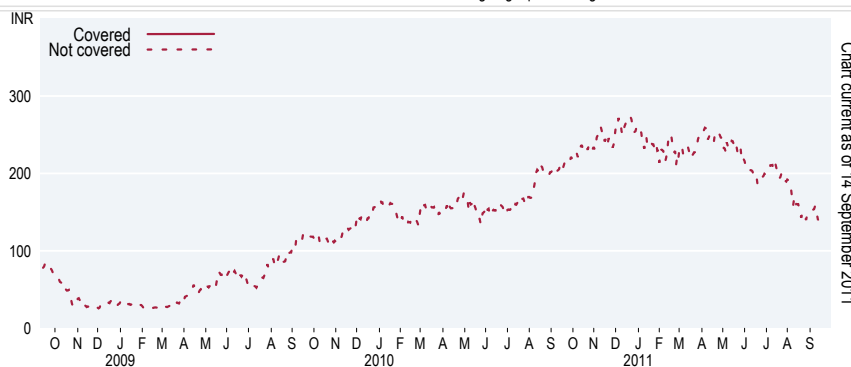


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