

# Buy

## Tata Motors



Industry: Auto and Auto Components

Industry View: Neutral

### Management Visit Note

#### “Meeting Takeaways”

The company is sanguine about the JLR business, while in the domestic markets, they are concerned about the MHCV segment. They foresee an improvement in PV business and are expecting the robust performance of the LCVs to continue going forward.

#### JLR demand to remain strong as China improves its share in total volume pie

As China contributed 22% of the total volumes of JLR in Q1 FY13, the company rubbished any slowdown impacting JLR's volumes or the questions that were raised by the industry regarding the discounts. They mentioned that they are currently away from the discount race in China, however they are giving small discounts on V6 and V8 versions of Range Rover as they have to clear off the inventory with the new model of Range Rover getting launched by Diwali. They have 2% market share in China and are a small player to give any discounts there. The Chinese markets are still offering good demand to JLR models particularly Evoque despite the demand for the biggies like BMW, Audi, Daimler etc have shown weakening signs. The Chery deal may commence at any time, depending on the regulatory approvals. This JV will be having an installed capacity to produce 1,00,000 units of Evoque, Freelander and Jaguar XF later. A 7-seater Freelander will get launched in Q4 FY 13 or Q1 FY14 and will be getting launched first in China following other geographies.

#### Evoque coupled with other new launches to drive JLR volumes

Evoque has emerged as the single largest driver of the JLR stable and sold about 27,000 units in FY 12. It has an order book of 22,000 units and produces and sells about 9,000-10,000 units per month. The company has hence started its third shift at the Halewood plant where Evoque (and Freelander) are produced. This would increase Evoque's production by ~3000 p.m. and thus cater to the bludgeoning demand for Evoque. The new launches include Range Rover and Range Rover Sport refreshes (Oct-Nov launch), a 7 seater Freelander as discussed above, Jaguar F Type, Sports Brake version of XF and an F Type Sports car based on the CX 16 platform showcased during the Delhi Auto Expo in January 2012. These new product launches will somewhat improve the product mix tilted towards the low margin Evoque and maintain margins close to 14-14.5%, says the management. In the US and China, ~70% vehicles function on All Wheel Drive Type, while Jaguar functions on 4 wheel drive type. The new launches to happen in these two countries will be on the All Wheel Drive Type, fitted with a smaller 2.2L or 2 L engine down from the traditional 3 L engine as demand is rapidly shifting towards fuel efficient smaller engines.

#### Stock Data

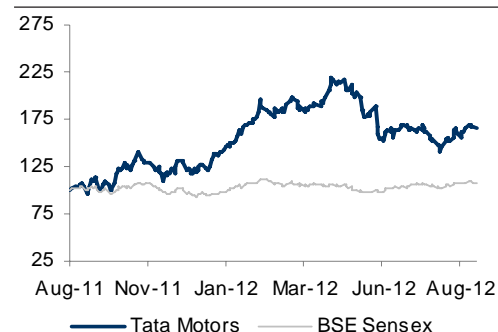
Current Market Price (₹)	235
Target Price (₹)	283
Potential upside (%)	20
Reuters	TAMO.BO
Bloomberg	TTMT IN

#### Key Data

Market Cap (₹bn)	644
52-Week Range (₹)	321 / 138
Avg. Daily Trading Value (₹mn)	3,679
Promoters (%)	35
FII Holding (%)	28
DII Holding (%)	12
Public & Others Holding (%)	25

Fiscal YE	FY11	FY12P	FY 13E	FY 14E
Revenues (₹bn)	1,231	1,656	1,920	2,099
EBITDA (%)	13.7	13.5	11.9	11.8
PAT (%)	8.2%	8.2%	6.8%	6.6%
EPS (₹)	31.8	40.9	39.0	41.8
EPS growth (%)	259.1	28.7	-4.7	7.1
P/E (x)	7.5	5.8	6.1	5.7
P/B(x)	3.9	2.4	1.8	1.3
EV/EBITDA (x)	1.2	1.1	1.0	0.8
ROE(%)	53%	41%	30%	24%

#### Relative Price Performance



#### One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	18	(13)	65
BSE Relative	11	(21)	57

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### **European weakness continues, US stable, Brazil the shining star among ROW countries**

Among the European countries, Southern Europe comprising of Spain, Portugal and Italy are showing maximum signs of weakness reflecting their economic woes. France is showing moderate growth, while Germany is one of the outperformers. The underperformance of models other than Evoque is mainly driven by Europe as customers are postponing their demand for the high price models of the JLR stable. Additionally customers are postponing the purchases of their V6 and V8 models of Range Rover as their refreshes are in the pipeline and will get launched in a couple of months. The US auto industry is still better placed as compared to Europe and JLR is performing moderately positive over there. Among the ROW countries, Brazil, South Africa, Australia, Russia and Middle East are the main drivers of growth. Brazil contributes maximum (~30%) of the total ROW volumes, where LR is having ~30% market share of the SUV industry. A recent change in the duty structure over there as resulted in some slowdown over there; however, government's intervention on the same may improve things over there. Russia is seeing slight slowdown due to which the contribution of Russia which was 6% a year ago has come down to 4%

### **Domestic MHCV to post a negative growth this year -**

Management mentioned that with 27% fall in MHCV volumes in Q1, the company has lost market share to its peers as they have given discounts lesser than players like Ashok Leyland and Eicher Motors. In future, if the market share loss becomes steeper, then TAMO will be forced to increase discounts, which seems likely going forward. Also to arrest this decline they are planning to launch 30 new products and variants in the next 1 year. This will include a range of Prima's new variants labeled as the LX range priced at just 10% premium to TAMO's existing products. However, for the full year FY13, the company expects a negative growth, though they did not quantify it. In the second half of the year, they see an improvement with expectations of bank rates getting cut and economy seeing some recovery. As far as the competition from players like Bharat Benz and Daimler is concerned, they said that it will be in the higher tonnage segment only, while with TAMO's presence across the MHCV industry will not get affected too much. The MHCV segment is currently running at 50-60% utilization rate.

### **LCV segment to grow close to 15% in FY 13**

Management is expecting LCV business to perform well with its trump card Tata Ace and its variants to rule the market while its new variants launches will keep competition at bay. LCV business of Tata is functioning at a capacity utilization rate of close to 65-70%, while SCV segment within LCV runs 100% capacity utilization driven by Ace. They don't see any significant slowdown in the LCV segment at least in FY 13, while expecting it to grow at 15% this year. Secondly, the Dharward capacity has commenced and is running in its first phase wherein they are producing insignificant amount of output currently, but has capacity of 100,000 units which would get ramped up by 50,000 if required.

### **PV segment to show improvement on new launches and renewed marketing efforts**

The company admitted to the fact that the company is losing its market share due to weak marketing efforts. Therefore, they are spending more on the advertising and dealer network. They plan to increase the dealer network by 10-15% this year from current 1000 touch points currently, while launching a Nano CNG variant, refreshes of Indica Vista and Indigo Manza and an new hatchback(with an altogether new name, free from the Indica/Indigo brand) in Q4 of the year. The additional efforts on marketing will not pressurize margins too much as the company believes that the RM costs will subside more in the ensuing quarters and the company will be able to better the Q1

margins of 7%. On the UV side, they see some competition building up, so they are launching the new Safari Storme by Diwali and Sumo Gold variants post that. With the recent launch of Nano 2012, they expect to touch a monthly run-rate of ~10,000 p.m. units of Nano in a few months which will be also supported by the CNG variant. The PV segment of TAMO is running at 65-70% utilization rate, driven by the increasing demand for diesel models (>70% of TAMO's PV portfolio is diesel)

## Outlook and Valuation

We remain positive on the stock and believe that the company will be able to post a strong performance on the JLR front in the medium term despite short term headwinds which even the management has agreed with. On the domestic front, this year will be difficult for TAMO as MHCV segment is a proxy to the economy. Management mentioned that the recent signs of slowdown in LCV segment is nothing to worry about and is seasonal. A good pickup in LCV business is expected in the coming months. We maintain a BUY rating on the stock and maintain our target price of Rs283 on the stock (upside of 20%)

### SOTP Valuation

<b>Standalone</b>	
FY '14E EBITDA (Rs mn)	43887
EV/EBITDA multiple (x)	6
EV (Rs mn)	263322
EV/share (Rs)	83
<b>JLR</b>	
FY '14E EBITDA (Rs mn)	200379
EV/EBITDA multiple (x)	3.5
EV (Rs mn)	701327
EV/share (Rs)	221
<b>FY '14E Consolidated Net debt (Rs mn)</b>	<b>124411</b>
Net debt/share (Rs)	39
Subsidiary value (Rs)	19
Target price (Rs)	283
CMP (Rs)	235
Upside (%)	20%

## Financial Summary (Consolidated)

### Income statement

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
<b>Total Revenues</b>	<b>1,231,333</b>	<b>1,656,545</b>	<b>1,920,162</b>	<b>2,099,999</b>
Raw Material Cost	686,175	982,617	1,278,867	1,397,134
Employee Cost	93,427	122,985	132,815	141,871
Other Exp	237,060	298,432	343,137	375,723
Expenses trnsfd	57,412	82,660	63,346	62,086
<b>EBITDA</b>	<b>168,175</b>	<b>223,113</b>	<b>228,688</b>	<b>247,357</b>
<i>EBITDA Margin(%)</i>	13.7	13.5	11.9	11.8
Other Income	11,366	6,618	15,000	15,000
Depreciation	46,555	56,254	59,777	63,332
Interest	20454	29822	21555	24321
<b>PBT</b>	<b>112,531</b>	<b>143,655</b>	<b>162,356</b>	<b>174,705</b>
Tax	12,164	404	32,238	35,288
PAT	102,677	135,743	130,118	139,417
<b>Adj PAT</b>	<b>100,896</b>	<b>136,567</b>	<b>130,118</b>	<b>139,417</b>
Adj PAT Margins (%)	8.2	8.2	6.8	6.6

### Key Ratios

YE Mar	FY11	FY12P	FY 13E	FY 14E
<b>Per Share Data (₹)</b>				
Adj. EPS	31.8	40.9	39.0	41.8
CEPS	46.5	57.8	56.9	60.7
BVPS	60.4	99.3	131.0	177.4
DPS	4.7	5.5	6.5	7.0
<b>Growth Ratios(%)</b>				
Total revenues	33.1	34.5	15.9	9.4
EBITDA	95.2	32.7	2.5	8.2
PAT	259.1	35.4	-4.7	7.1
EPS Growth	259.1	28.7	-4.7	7.1
<b>Valuation Ratios (X)</b>				
PE	7.5	5.8	6.1	5.7
P/CEPS	5.1	4.1	4.2	3.9
P/BV	3.9	2.4	1.8	1.3
EV/Sales	0.2	0.2	0.1	0.1
EV/EBITDA	1.2	1.1	1.0	0.8
<b>Operating Ratios (Days)</b>				
Inventory days	42	40	42	44
Receivable Days	19	18	21	22
Payables day	266	247	220	220
Net Debt/Equity (x)	0.30	0.29	0.17	0.06
<b>Profitability Ratios (%)</b>				
ROE	53	41	30	24
Dividend payout	12	12	15	15

Source: Company, LKP Research

### Balance sheet

YE Mar (₹mn)	FY11	FY12	FY 13E	FY 14E
<b>Equity and Liabilities</b>				
Equity Share Capital	6,370	6,348	6,348	6,348
Reserves & Surplus	185,333	325,147	430,746	585,863
Total Networth	191,715	331,495	437,094	592,211
Total debt	172,560	279,625	266,984	254,372
Deferred tax liabilities	20,961	21,651	22,651	23,751
Other long term liabilities	22,927	24,586	26,586	28,086
Long term provisions	48,256	60,714	62,914	64,214
Minority interest	2,466	3,071	4,000	4,000
<b>Current Liab &amp; Prov</b>				
Current liabilities	499,941	664,977	770,824	842,108
Provisions	51,315	67,704	76,732	55,885
Total Equity & Liabilities	1,010,142	1,453,822	1,667,784	1,864,627
<b>Assets</b>				
Net block	227,622	271,185	331,408	358,076
Capital WIP	22,445	31,215	38,215	42,215
Goodwill	35,848	40,937	40,937	40,937
Intangible Assets	182,143	259,724	259,724	259,724
Non current investments	13,366	13,915	13,915	13,915
Deferred tax assets	6,323	45,393	50,393	55,393
Long term assets and loans & adv.	98,183	136,580	143,580	150,580
Other non current assets	3,323	5,747	7,247	8,747
<b>Current Assets</b>				
Current Investments	12,077	75,262	75,262	75,262
Cash and Bank	114,096	182,381	192,492	216,381
Inventories	140,705	182,160	220,950	253,151
Sundry Debtors	65,256	82,368	110,475	126,575
Loan, Advances & others	88,754	122,443	183,185	263,671
<b>Total Assets</b>	<b>1,010,142</b>	<b>1,453,822</b>	<b>1,667,784</b>	<b>1,864,627</b>

### Cash Flow

YE Mar (₹mn)	FY11	FY12P	FY 13E	FY 14E
<b>PAT</b>	<b>92,736</b>	<b>135,165</b>	<b>130,118</b>	<b>139,417</b>
Depreciation	46,510	56,209	59,777	63,332
Interest	19,781	24,710	21,555	24,321
Chng in working capital	(40,484)	(22,801)	(11,464)	(77,049)
Tax paid	12,164	(400)	32,238	35,288
Other operating activities	(18,306)	(9,039)	(4,000)	(3,900)
<b>CF from operations (a)</b>	<b>112,401</b>	<b>183,843</b>	<b>228,224</b>	<b>181,409</b>
Capital expenditure	(81,128)	(137,829)	(127,000)	(94,000)
Chng in investments	(8,988)	(62,014)	0	0
Other investing activities	17,261	(5,586)	(13,815)	(5,499)
<b>CF from investing (b)</b>	<b>(72,855)</b>	<b>(205,429)</b>	<b>(140,815)</b>	<b>(99,499)</b>
Free cash flow (a+b)	39,547	(21,585)	87,409	81,910
Inc/(dec) in borrowings	(12,051)	123,747	(12,641)	(12,612)
Dividend paid (incl. tax)	(10,195)	(15,031)	(19,694)	(21,088)
Other financing activities	8,234	(37,844)	(16,112)	(24,321)
<b>CF from financing (c)</b>	<b>(14,013)</b>	<b>70,872</b>	<b>(48,447)</b>	<b>(58,021)</b>
Net chng in cash (a+b+c)	25,534	49,287	38,962	23,889
<b>Closing cash &amp; cash equiv.</b>	<b>93,454</b>	<b>153,530</b>	<b>192,492</b>	<b>216,381</b>

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