

July 28, 2011

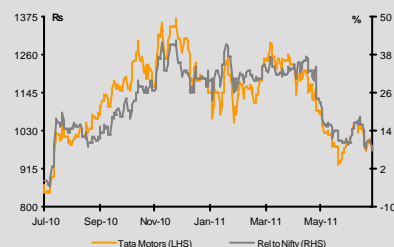
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs951	Rs1,450
EPS change FY 12E (%)	NA
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(24)	(20)	12
Rel. to Nifty	(2)	(19)	(19)	10

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Automobiles
Bloomberg	TTMT@IN
Equity Capital (Rs mn)	5383
Face Value(Rs)	10
No of shares o/s (mn)	538
52 Week H/L	1,381/820
Market Cap (Rs bn/USD mn)	512/11,606
Daily Avg Volume (No of sh)	678580
Daily Avg Turnover (US\$m)	16.3

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	34.8	34.8	34.9
FII/NRI	43.1	44.7	43.2
Institutions	13.7	12.7	13.7
Private Corp	0.6	0.4	0.4
Public	7.8	7.5	7.8

Source: Capitaline

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- Evoque's order book stands at ~20,000 units. Wholesale billings to start from August and retail from Sep. Maintain volume guidance based on Evoque and recovery in XF
- Discounts in line with industry standards. No significant increase in discounts from company. Higher discounts limited to specific models/dealers
- 1QFY12 to be impacted by adverse forex and Evoque related costs. We est. JLR EBITDA margin to be 13.4% in 1QFY12 (-160bps YoY) resulting in conso PAT of Rs 20.9bn (3%YoY)
- Maintain BUY rating with a TP of Rs 1,450 based on SOTP. Key concerns arise from higher capex (GBP 1.5bn) and lack of clarity w.r.t. new emission norms

Conference call highlights

- Evoque continues to receive strong consumer enquiries. Order book stands at slightly below 20,000 units. Wholesale billings are expected to begin from August while retail sales should start from September onwards. However did not share the production plan (waiting list)
- Evoque is not likely to cannibalise sales of other current models as it targets a completely different customer. Company is maintaining its volume guidance based on this assumption and recovery in XF volumes
- Contribution margin of Evoque is likely to be better as compared to Freelander but lower than Range Rover, Range Rover Sport.
- Evoque is being produced from Liverpool plant. Current capacity of the plant stands at 130,000 to 150,000 units. Paint shop is working three shifts while final assembly line is at two shifts per day. Expect operations to continue at two shifts per day as Evoque volumes pick up
- Costs pertaining to Evoque launch and branding related expenses are likely to be expensed off in the H1FY12, largely in 1QFY12 and some portion in 2QFY12.
- Employee costs are indexed to inflation which currently is at ~5% for UK. Company has hired ~2,000 temporary contract workers particularly to meet Evoque production requirements.
- Capitalisation ratio of product development expense varies with each company. Companies in European union capitalise ~50% of R&D expense while US companies expense the complete R&D cost.
- Russia and China continue to drive strong growth. Several initiatives in Chinese market like launch of a National Sales company and ramp up in number of dealers to 100 (currently ~50) will enable JLR to improve volumes and profits from China. Also, the JV will enable JLR to have a lower cost structure.

Financial Snapshot

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	%chg	(%)	P/E	EBITDA	P/BV
FY10	924,130	74,183	8.0	10,751	16.3	(259.6)	15.8	71.3	13.6	9.1
FY11P	1,230,719	166,941	13.6	89,192	135.1	729.6	64.7	8.6	5.7	4.0
FY12E	1,423,014	193,509	13.6	102,435	155.2	14.8	43.3	7.5	4.7	2.7
FY13E	1,610,418	214,271	13.3	112,220	170.0	9.6	34.1	6.8	4.0	2.0

Source: Company, Emkay Research

- Currently, JLR has no plans of setting up an assembly line in China for this and next year.
- JLR does not benefit from Russian scrappage schemes. Hence any withdrawal of scrappage scheme is not likely to impact JLR momentum in Russia
- China realizations continue to remain strong benefiting from better product mix (higher Range Rover, Sport, Discover and Jaguar XJ)
- Jaguar XF volume has remained subdued in FY11 due to change in model year in UK. Volumes are likely to improve from September onwards as the company launches the facelift Jaguar XF.
- Discounts from JLR are in line with industry trend. News flows on higher discounts are largely restricted to dealer discounts and localized to few dealers.
- JLR has benefited from favorable forex movement to the tune of GBP ~200 mn in FY11.
- Continuing with engine sourcing contract from Ford and PSA joint venture for the next four to five years.
- Current cash balance stands at 1.4bn pounds.

Valuations and View

At CMP of Rs 951, the stock trades at PER of 7.5 and 6.8 and EV/EBIDTA of 4.7 and 4.0 our FY12 and FY13 estimates respectively. We believe adverse currency/geographical swings as the only risk to our estimates. We retain our BUY rating on the stock with a TP of Rs 1450.

Valuation Summary

	FY12E	FY13E
Volumes		
M&HCVs	229,488	253,465
LCVs	253,416	275,193
Cars	207,407	223,077
Nano	161,994	226,791
UVs	105,752	117,443
JLR	275,582	302,225
Total	1,233,638	1,398,193
Sales		
TML	532,385	603,716
JLR	824,582	934,204
Others (ex TMFSL)	52,557	57,191
Total	1,409,525	1,595,111
EBIDTA		
TML	46,815	53,617
JLR	131,376	143,505
Others (ex TMFSL)	7,956	8,753
Total	186,148	205,875
Target multiple		
TML	8.0	8.0
JLR	5.0	4.0
Others (ex TMFSL)	7.2	7.2
Target EV		
TML	374,523	428,939
JLR	656,878	574,019
Others	57,287	63,022
Total	1,088,688	1,065,980
Less: Net Debt (ex TMFSL)	163,204	110,886
Target MC	925,484	955,093
Share capital nos mn)	660	660
Value per share	1,402	1,447
Less MI	32	32
Add:TMFSL	35	35
Net Value per share	1,405	1,450

Source: Company, Emkay Research

Financials - Consolidated

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	924,130	1,230,719	1,423,014	1,610,418
Growth (%)	29.5	33.2	15.6	13.2
Expenditure	849,947	1,063,778	1,229,506	1,396,147
Materials Consumed	614,954	790,084	921,724	1,046,043
Employee Cost	87,518	93,427	101,337	115,506
Other Exp	147,475	180,268	206,444	234,598
EBITDA	74,183	166,941	193,509	214,271
Growth (%)	122.0	125.0	15.9	10.7
EBITDA margin (%)	8.0	13.6	13.6	13.3
Depreciation	38,871	46,555	53,206	60,802
EBIT	35,312	120,386	140,303	153,470
EBIT margin (%)	3.8	9.8	9.9	9.5
Other Income	7,352	896	2,672	2,699
Interest expenses	22,397	20,454	24,112	25,582
PBT	20,267	100,827	118,862	130,587
Tax	10,058	12,164	16,428	18,367
Effective tax rate (%)	49.6	12.1	13.8	14.1
Adjusted PAT	10,209	88,664	102,435	112,220
Growth (%)	(261.1)	768.5	15.5	9.6
Net Margin (%)	1.1	7.2	7.2	7.0
(Profit)/loss from JV's/Ass/MI	(542)	(528)	-	-
Adj. PAT After JVs/Ass/MI	10,751	89,192	102,435	112,220
E/O items	4,381	3,544	-	-
Reported PAT	15,131	92,736	102,435	112,220
Growth (%)	(259.6)	729.6	14.8	9.6

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	12,915	99,931	116,191	127,888
Depreciation	38,871	46,555	53,206	60,802
Interest Provided	22,397	20,454	24,099	25,582
Other Non-Cash items	(14,646)	(37,159)	-	-
Chg in working cap	43,790	(10,377)	(39,369)	25,836
Tax paid	(10,058)	(12,164)	(16,428)	(18,367)
Operating Cashflow	93,269	107,241	137,699	221,739
Capital expenditure	(36,217)	(104,352)	(55,467)	(129,891)
Free Cash Flow	57,052	2,889	82,232	91,848
Other income	7,352	896	2,672	2,699
Investments	(46,466)	(3,251)	0	-
Investing Cashflow	(75,331)	(106,707)	(52,795)	(127,192)
Equity Capital Raised	565	33,777	223	-
Loans Taken / (Repaid)	2,185	14,916	(30,001)	(30,000)
Interest Paid	(22,397)	(20,454)	(24,112)	(25,582)
Dividend paid (incl tax)	(10,019)	(14,872)	(14,333)	(15,702)
Income from investments	-	-	-	-
Others	54,784	-	-	-
Financing Cashflow	25,119	13,366	(68,222)	(71,284)
Net chg in cash	43,058	13,901	16,682	23,264
Opening cash position	41,213	87,433	109,479	126,161
Closing cash position	84,272	101,334	126,161	149,425

* The difference between the closing cash as per balance sheet and as per cash flow is due to cash credit balances and exchange adjustments

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	5,706	6,377	6,600	6,600
Reserves & surplus	78,270	185,338	274,285	370,802
Net worth	83,976	191,715	280,885	377,403
Minority Interest	2,135	2,466	2,466	2,466
Secured Loans	212,900	199,271	237,815	227,815
Unsecured Loans	139,023	128,643	60,098	40,098
Loan Funds	351,924	327,914	297,914	267,914
Net deferred tax liability	11,536	14,638	14,638	14,638
Total Liabilities	449,571	536,733	595,902	662,420
Gross Block	682,747	750,477	849,499	979,391
Less: Depreciation	344,135	396,987	440,026	500,827
Net block	338,612	353,491	409,474	478,563
Capital work in progress	80,680	117,302	73,746	73,746
Investment	22,191	25,443	25,442	25,442
Current Assets	425,296	510,349	602,312	682,135
Inventories	113,120	140,705	172,345	194,868
Sundry debtors	71,912	68,774	78,738	83,563
Cash & bank balance	87,433	109,479	126,161	149,425
Loans & advances	152,807	191,372	225,062	254,273
Other current assets	24	19	6	6
Current lia & Prov	417,208	469,838	505,751	588,145
Current liabilities	340,773	371,147	390,086	456,551
Provisions	76,435	98,692	115,665	131,595
Net current assets	8,088	40,511	96,562	93,990
Misc. exp	-	-	-	-
Total Assets	449,571	536,746	605,224	671,742

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	8.0	13.6	13.6	13.3
Net Margin	1.1	7.2	7.2	7.0
ROCE	9.9	24.6	25.2	24.8
ROE	15.8	64.7	43.3	34.1
RoIC	13.8	44.3	42.2	38.2
Per Share Data (Rs)				
EPS	16.3	135.1	155.2	170.0
CEPS	75.2	205.7	235.8	262.1
BVPS	127.2	290.5	425.6	571.8
DPS	13.5	20.0	19.3	21.1
Valuations (x)				
PER	71.3	8.6	7.5	6.8
P/CEPS	15.4	5.6	4.9	4.4
P/BV	9.1	4.0	2.7	2.0
EV / Sales	1.1	0.8	0.6	0.5
EV / EBITDA	13.6	5.7	4.7	4.0
Dividend Yield (%)	1.2	1.7	1.7	1.8
Gearing Ratio (x)				
Net Debt/ Equity	3.0	1.0	0.5	0.3
Net Debt/EBIDTA	3.3	1.2	0.8	0.5
Working Cap Cycle (days)	(61.5)	(47.9)	(35.7)	(40.4)

Recommendation History: Tata Motors – TTMT IN

Date	Reports	Reco	CMP	Target
26/05/2011	Tata Motors Q4FY11 Conso Result Update	Buy	1,161	1,450
16/03/2011	Tata Motors Management Meet Update	Buy	1,144	1,520
14/02/2011	Tata Motors Q3FY11 Conso Result Update	Buy	1,144	1,520
10/11/2010	Tata Motors Q2FY11 Conso Result Update	Buy	1,271	1,550

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/07/2011	Maruti Suzuki Q1FY12 Result Update	Accumulate	1,178	1,400
25/07/2011	Ashok Leyland Company Update	Accumulate	52	57
21/07/2011	Hero Honda Q1FY12 Result Update	Hold	1,789	1,840
20/07/2011	Ashok Leyland Q1FY12 Result Update	Accumulate	50	57

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