

Tata Motors (TELCO)

₹ 217

WHAT'S CHANGED...

| | |
|--------------------|-------------------------------|
| PRICE TARGET | Changed from ₹ 221 to ₹ 241 |
| EPS (FY12E) | Changed from ₹ 27.3 to ₹ 30.6 |
| EPS (FY13E) | Changed from ₹30.8 to ₹ 34.0 |
| RATING | Unchanged |

Expectations surpassed as JLR "Evoques"

Tata Motors (TML) has been one of our conviction stocks. TML has allayed all the fears of the analyst fraternity regarding growth prospects in JLR due to a so called "imminent recession" in CY11. The JLR business has witnessed strong volume growth (up ~24% YTD FY12 at 2,17,108 units) led by popular Land rover products (Evoque, RR-Sport) at 1,77,364 units, up ~34% YTD. We have taken cognisance of the new growth orbit of LR products, which has beaten our estimates. Considering this and JLR we are more hopeful of witnessing a better domestic MHCV performance in FY13E contrary to market expectations. We believe steeper interest rate cuts and higher focus on GFCF (contribution to GDP at six year low) by policy makers will help in a pick-up of business climate by ~H2FY13E.

December 2011 volumes enter new orbit as "Evoque" ramps up

JLR reported all-time high monthly volumes of 30,981 units for December 2011, up ~45% with both Land Rover and Jaguar rising ~54% and 9%, respectively. This has been accelerated by the first month of complete global sales for "Evoque" of ~9,000 units. The geographical demand has been fuelled by emerging markets like China, Brazil along with the developed markets of the US. We believe any Euro zone volume moderation will be easily overcome by strong emerging market demand. We expect JLR to clock in excess of ~2,95,000 units for FY12E.

Outlook & Valuation

We remain positive on the long term outlook and expect to witness upgrades both in terms of earnings and valuations for domestic as well as JLR business. We have upgraded our SOTP target price of ₹ 241 and have a **BUY** rating on the stock. All portfolio investors with a two year horizon who had averaged at lower levels are advised to keep holding positions.

Exhibit 1: Valuation on SOTP method

| | Parameters | Basis | Multiple | Per Share |
|-----------------------------|-------------------|------------------------------------|----------|-----------|
| Tata Motors Core business | FY13E EPS | 5.8 | 12.5 | 73 |
| JLR | FY13Adj EV/EBITDA | 12827 | 3.5 | 149 |
| Subsidiary valuation | | | | |
| Tata Daewoo | FY13E NP | 87.5 | 8.0 | 2 |
| Tata Motor Finance | FY13E NP | 183.5 | 6.0 | 3 |
| Tata Technologies | FY13E NP | 143.9 | 10.0 | 4 |
| TML Drivelines | FY13E NP | 170.5 | 10.0 | 4 |
| Value of other subsidiaries | | | | |
| Value post discount | | Holding company discount @20% | | 11 |
| Value of investments | | 0.2x BV of unquoted investments | | 9 |
| | | Market value of quoted investments | | |
| Total value per share | | | | 241 |

Source: Company, ICICIdirect.com Research

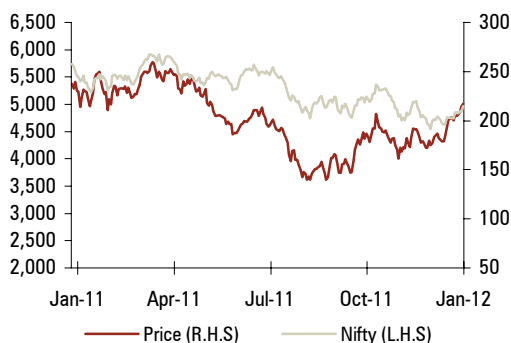
| Rating matrix | |
|------------------|-------------|
| Rating | : Buy |
| Target | : ₹ 241 |
| Target Period | : 12 months |
| Potential Upside | : 11% |

| Key Financials | | | | |
|----------------|---------|----------|----------|----------|
| (₹ crore) | FY10 | FY11E | FY12E | FY13E |
| Net Sales | 92519.3 | 123133.3 | 156457.9 | 173795.2 |
| EBITDA | 10407.3 | 17780.0 | 19570.6 | 22461.1 |
| Net Profit | 2516.9 | 9220.8 | 9754.8 | 10845.7 |
| EPS (₹) | 9.0 | 29.1 | 30.6 | 34.0 |

| Valuation summary | | | | |
|-------------------|------|-------|-------|-------|
| | FY10 | FY11E | FY12E | FY13E |
| PE (x) | 24.1 | 7.5 | 7.1 | 6.4 |
| Target PE (x) | 26.8 | 8.3 | 7.9 | 7.1 |
| EV to EBITDA (:) | 9.2 | 4.9 | 4.1 | 3.4 |
| Price to book (:) | 1.5 | 0.7 | 0.5 | 0.4 |
| RoNW (%) | 31.3 | 46.0 | 35.2 | 29.6 |
| RoCE (%) | 18.3 | 24.2 | 24.0 | 24.2 |

| Stock data | |
|-------------|---------------|
| Mcap | ₹63744.9crore |
| Debt (FY11) | ₹32791.4crore |
| Cash (FY11) | ₹10947.9crore |
| EV | ₹85588.4crore |
| 52 week H/L | 261 / 138 |
| Equity cap | ₹637.7crore |
| Face value | ₹2 |
| MF Holding | 14.8% |
| FII Holding | 24.1% |

Price movement



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We have upgraded our consolidated estimates for FY12E and FY13E due to the better-than-expected performance of JLR, which may receive strong currency benefits in both realisations/costs in case US\$, EUR turning favourable. We have raised our JLR volume estimates for FY12E/13E by ~2%/3.4%, respectively, leading to a PAT rise of ~2.7%/3.0%, respectively. We have upgraded standalone EPS estimates for FY13E by ~ 5.5% in light of our relatively contrarian positive view for the MHCV segment.

We have valued the stock on an SOTP basis. In this, we have valued the standalone business at 12.5x FY13 adjusted EPS of ₹ 5.8 to arrive at ₹ 73 and JLR at 3.5x EV/EBITDA to arrive at ₹ 149 and other major subsidiaries at ₹ 11 (post holding company discount). We have also valued the investment book of the company at 0.2x BV for unquoted investments and market value of quoted investments to reach ₹ 9/share and arrived at our target price of ₹ 221. We maintain our **BUY** rating on the stock. We had been positive on Tata Motors and advised investors to make fresh investments at all lower levels. Since the Q1FY12 recommendation, the stock has given ~38% returns. It has outperformed the broader market by ~6% on an annual basis. All portfolio investors with a two year time horizon who had averaged at lower levels are advised to keep holding positions.

Exhibit 2: Revised consolidated financial metrics

| (₹ crore) | FY12E | | | FY13E | | |
|-----------------|-----------|----------|----------|-----------|----------|----------|
| | Old | New | % Change | Old | New | % Change |
| Net Sales | 145,572.3 | 156457.9 | 7.5 | 160,227.1 | 173795.2 | 8.5 |
| EBITDA | 17,808.1 | 19570.6 | 9.9 | 20,439.9 | 22461.1 | 9.9 |
| EBITDA Margin % | 12.2 | 12.5 | 28 bps | 12.8 | 12.9 | 17 bps |
| PAT | 8716.2 | 9754.8 | 11.9 | 9818.8 | 10845.7 | 10.5 |
| EPS (₹) | 27.3 | 30.6 | 12.0 | 30.8 | 34.0 | 10.4 |

Source: Company, ICICIdirect.com Research

Exhibit 3: Jaguar Land Rover metrics

| GBP mn | FY10 | FY11 | FY12E | FY13E |
|------------------|---------|--------|---------|---------|
| Total Volumes | 193982 | 243621 | 295593 | 339583 |
| Jaguar(nos) | 23,939 | 52993 | 53476 | 60048 |
| Land rover (nos) | 146,564 | 190628 | 242116 | 277778 |
| Net sales | 6554.8 | 9905.1 | 12924.6 | 15334.9 |
| EBITDA | 432.2 | 1619.4 | 1956.3 | 2368.3 |
| EBITDA margin(%) | 6.6 | 16.3 | 15.1 | 15.4 |
| PAT | -14.3 | 1041.3 | 1083.0 | 1206.7 |

Source: Company, ICICIdirect.com Research

Exhibit 4: Valuation table

| | Sales | Growth | EPS | Growth | PE | EV/EBITDA | RoNW | RoCE |
|-------|----------|--------|------|--------|------|-----------|------|------|
| | (₹ cr) | (%) | (₹) | (%) | (x) | (x) | (%) | (%) |
| FY10 | 92519.3 | | 9.0 | NC | 24.1 | 9.2 | 31.3 | 18.3 |
| FY11 | 123133.3 | 33.1 | 29.1 | 222.4 | 7.5 | 4.9 | 46.0 | 24.2 |
| FY12E | 156457.9 | 33.1 | 30.6 | 5.2 | 7.1 | 4.1 | 35.2 | 24.0 |
| FY13E | 173795.2 | 27.1 | 34.0 | 11.2 | 6.4 | 3.4 | 29.6 | 24.2 |

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Auto OEMs)

| | | | | | Sales (₹ cr) | EPS (₹) | PE(x) | EV/E (x) | RoNW (%) | RoCE (%) |
|----------------------|--------|-----------|-------|-------|--------------|---------|-------|----------|----------|----------|
| Tata Motors | | | | | | | | | | |
| Idirect Code | TELCO | CMP(₹) | 217 | FY10 | 92519.3 | 9.0 | 24.1 | 9.2 | 31.3 | 18.3 |
| | | Target(₹) | 241 | FY11 | 123133.3 | 29.1 | 7.5 | 4.9 | 46.0 | 24.2 |
| Mcap (₹cr) | 63745 | % Upside | 11.0 | FY12E | 156457.9 | 30.6 | 7.1 | 4.1 | 35.2 | 24.0 |
| | | | | FY13E | 173795.2 | 34.0 | 6.4 | 3.4 | 29.6 | 24.2 |
| Maruti Suzuki | | | | | | | | | | |
| Idirect Code | MARUTI | CMP(₹) | 1108 | FY10 | 28,958.5 | 88.2 | 12.6 | 7.3 | 24.1 | 31.7 |
| | | Target(₹) | 1140 | FY11 | 36,128.2 | 79.2 | 14.0 | 7.3 | 17.8 | 23.9 |
| Mcap (₹cr) | 32031 | % Upside | 2.8 | FY12E | 33,402.8 | 52.5 | 21.1 | 11.0 | 10.4 | 16.2 |
| | | | | FY13E | 39,629.0 | 84.4 | 13.1 | 7.8 | 14.8 | 24.2 |
| M&M | | | | | | | | | | |
| Idirect Code | MAHMAH | CMP(₹) | 706 | FY10 | 18602.1 | 35.9 | 13.3 | 13.9 | 31.9 | 25.8 |
| | | Target(₹) | 714 | FY11 | 23493.7 | 40.6 | 11.7 | 12.2 | 29.3 | 26.0 |
| Mcap (₹cr) | 43253 | % Upside | 1.2 | FY12E | 30088.8 | 43.4 | 11.0 | 11.1 | 24.3 | 24.3 |
| | | | | FY13E | 34000.8 | 48.5 | 9.8 | 9.4 | 23.6 | 25.1 |
| Bajaj Auto | | | | | | | | | | |
| Idirect Code | BAAUTO | CMP(₹) | 1,453 | FY10 | 12,043.5 | 58.8 | 24.7 | 15.5 | 58.1 | 55.0 |
| | | Target(₹) | 1,537 | FY11 | 16,975.0 | 115.4 | 12.6 | 11.2 | 68.0 | 59.1 |
| Mcap (₹cr) | 42031 | % Upside | 5.8 | FY12E | 20,228.3 | 104.0 | 14.0 | 8.4 | 47.2 | 57.5 |
| | | | | FY13E | 22,530.9 | 109.8 | 13.2 | 7.6 | 42.3 | 53.0 |
| Escorts | | | | | | | | | | |
| Idirect Code | ESCORT | CMP(₹) | 78 | SY10 | 2,764.7 | 13.4 | 5.8 | 2.3 | 7.9 | 8.9 |
| | | Target(₹) | 76 | SY11 | 3,252.1 | 11.8 | 6.6 | 2.9 | 6.7 | 6.3 |
| Mcap (₹cr) | 801 | % Upside | -2.6 | SY12E | 3,606.3 | 8.4 | 9.4 | 2.7 | 4.6 | 6.0 |
| | | | | SY13E | 3,927.3 | 12.6 | 6.2 | 1.8 | 6.5 | 8.3 |
| Hero MotoCorp | | | | | | | | | | |
| Idirect Code | HERHON | CMP(₹) | 1828 | FY10 | 19,669.3 | 111.8 | 16.4 | 11.0 | 64.4 | 70.0 |
| | | Target(₹) | 1835 | FY11 | 19,401.2 | 96.5 | 18.9 | 11.4 | 65.2 | 74.1 |
| Mcap (₹cr) | 36552 | % Upside | 0.4 | FY12E | 23,582.2 | 121.9 | 15.0 | 8.0 | 86.3 | 91.2 |
| | | | | FY13E | 25,902.3 | 131.1 | 13.9 | 7.2 | 91.3 | 96.2 |

Source: Company, ICICIdirect.com Research

Exhibit 5: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 6: Recent Releases

| Date | Event | CMP | Target Price | Rating |
|-----------|----------------------|-----|--------------|------------|
| 15-Feb-11 | Q3FY11 Result Update | 247 | 305 | STRONG BUY |
| 8-Apr-11 | Q4FY11 Preview | 251 | 305 | STRONG BUY |
| 30-May-11 | Q4FY11 Result Update | 215 | 284 | STRONG BUY |
| 5-Jul-11 | Q1FY12 Preview | 203 | 284 | STRONG BUY |
| 16-Aug-11 | Q1FY12 Result Update | 160 | 244 | STRONG BUY |
| 5-Oct-11 | Q2FY12 Preview | 147 | 244 | STRONG BUY |
| 14-Oct-11 | Q2FY12 Result Update | 180 | 221 | BUY |
| 6-Jan-12 | Q3FY12 Preview | 204 | 221 | BUY |

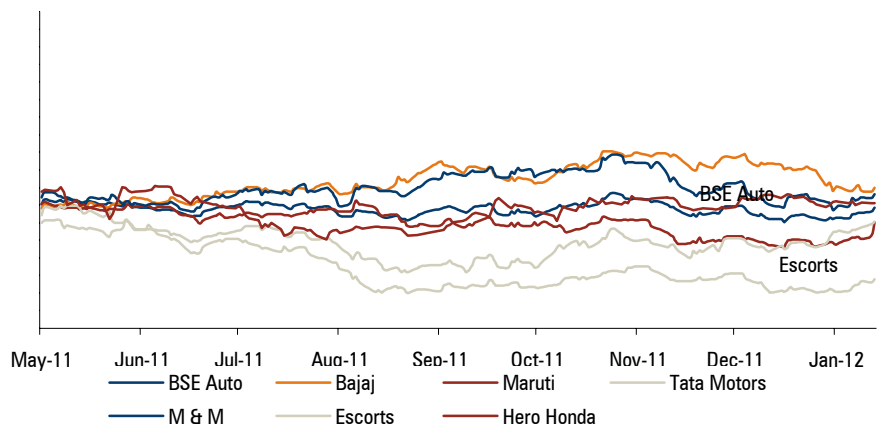
Source: Company, ICICIdirect.com Research

ICICIdirect.com Universe price movement vis-à-vis BSE Auto index

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since January 2011, Bajaj Auto and M&M have outperformed while Maruti Suzuki and Escorts have underperformed in comparison to the index by being divergent on the upside and downside, respectively

Exhibit 7: OEM comparison with BSE Auto

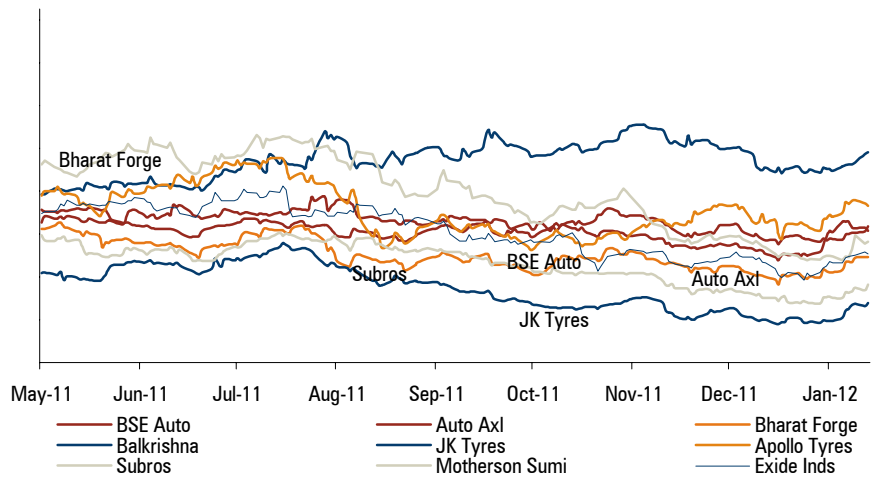


Source: Company, ICICIdirect.com Research

Exhibit 8: Ancillaries comparison with BSE Auto

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of larger market capitalisation companies like Exide Industries, which mimic the index greatly. JK tyre and Subros have grossly underperformed due to the intense rubber price overhang and production disruption at Maruti respectively.



Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

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