

Buy

Tata Motors



Industry: Auto and Auto Components

Industry View: Neutral

Company Update

“JLR sales lead to earnings upgrade”

Strong performance from JLR remains the main driver of growth

Robust performance from Jaguar as well as Land Rover in the emerging markets enabled TAMO to put up a strong performance over FY 12, as a result of which the YTD sales have reached above 2,16,000 units. This indicates that even if the company sells about 28,000-30,000 units per month hereon for the rest of the three months of FY12, JLR can easily cross 2,90,000 units, which is way above our previous conservative estimate of 2,70,000 units. The traction which is shown by JLR on increasing demand for its recently launched Evoque, a smaller engine fitted Jaguar XF and emerging markets like China, Middle East, Russia, Brazil etc, we expect the company to offset any losses happening in the Eurozone. Margin wise, we still believe that Evoque will not be a dampener as differential pricing in various geographies will help the company prevent any margin fall. We now expect JLR to grow at 19.4%/16.3% in FY 12E/13E to reach 291k/338k respectively.

Domestic LCV volumes robust, MHCVs grow at a steady pace

Robust demand for LCVs insulated from the macro headwinds is helping the company to put up a solid show on the CV side of the business. LCVs used mainly by the consumption side of the industry and last mile transportation still remains buoyant. We have increased the LCV volume forecast to 353k/414k from our previous estimate of 323k/383k for FY12E/13E, translating into growth of 23%/17% respectively. The company's LCV (Tata Ace and variants) capacity expansion plan at Pantnagar and setting up new capacity at Dharwad will yield results from FY 13 onwards, due to which we have increased the FY13 numbers by 8%. On the MHCV side, the company is still showing resilience with moderate growth of close to 7%. With freight rates stable except for eastern parts of the country and expectation of interest rate cycle reversing though industrial growth is slightly slowing down, we are maintaining our MHCV estimates at 222k/239k for FY12E/13E, which implies a growth of 6%/8% respectively.

PV business improving, Nano sales helping the cause

After having a dismal run in the first half of FY 12, PV sales are showing signs of improvement with Nano sales now consistently selling 6k-7k per month. With new variants of Nano coming up we expect the steady state rate of Nano to be at 10,000 per month in FY13. Also with a variant of Indica Vista launched recently the PV sales are looking upwards. With the upcoming launch of Tata Safari Storme as displayed in the Auto Expo 2012, we expect the company to show some revival in its flagging UV business. We now expect PV sales to be at 301k/347k in FY12E/ FY13E, a growth of (2%)/15% respectively.

Stock Data

Current Market Price (₹)	213
Target Price (₹)	253
Potential upside (%)	19
Reuters	TAMO.BO
Bloomberg	TTMT IN

What's Changed

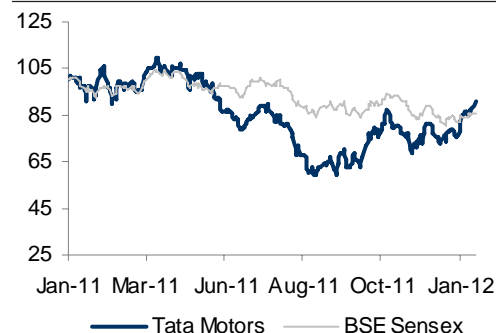
12 month PriceTarget (₹)	195 to 253
F2012 EPS (₹)	25 to 26
F2013 EPS (₹)	29 to 34

Key Data

Market Cap (₹bn)	213
52-Week Range (₹)	260 / 138
Avg. Daily Trading Value (₹mn)	3,005
Promoters (%)	35
FII Holding (%)	24
DII Holding (%)	15
Public & Others Holding (%)	26

Fiscal YE	FY 10	FY 11	FY 12E	FY 13E
Revenues (₹mn)	925,193	1,231,333	1,516,870	1,773,900
EBITDA (%)	9.85	14.44	11.69	12.80
PAT (%)	3.0%	7.3%	5.8%	6.4%
EPS (₹)	8.85	28.49	26.30	34.03
EPS growth (%)	N/A	221.8	-7.7	29.4
P/E (x)	24.1	7.5	8.1	6.3
P/B(x)	1.6	0.7	0.5	0.4
EV/EBITDA (x)	4.4	2.0	1.9	1.0
ROCE(%)	42%	71%	56%	60%
ROE(%)	34%	47%	32%	30%

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	19	14	(10)
BSE Relative	13	18	5

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Outlook and valuation

With robust expectations from JLR business and steady business from the domestic side, we are revising our volume estimates as well as margin estimates for the company, though we feel that in short term, margins will be affected due to currency risks. We expect consol margins to be at 11.7%/12.8% for FY 12E/13E from our earlier expectations of 11.7%/12.2%. We now value the domestic business at 8xEV/EBITDA at Rs 122 and JLR at 3x EV/EBITDA at Rs 141. We arrive at a target of Rs 253, which is an upside of 19% from current levels after subtracting Rs 28/share of net debt and adding back the subsidiary value of Rs18.

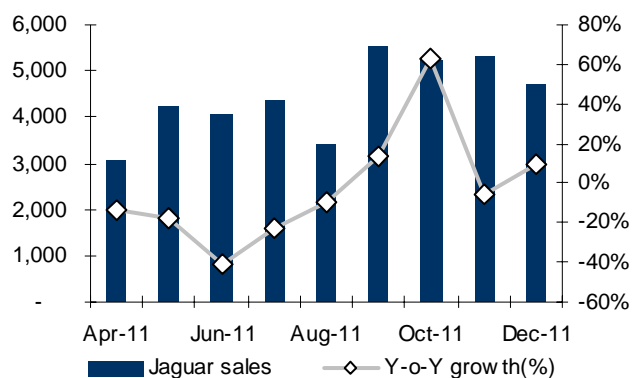
Valuation

Standalone	
FY '13E EBITDA (Rs mn)	50861
EV/EBITDA multiple (x)	8
EV (Rs mn)	406890
EV/share (Rs)	122
JLR	
FY '13E EBITDA (Rs mn)	156777
EV/EBITDA multiple (x)	3
EV (Rs mn)	470332
EV/share (Rs)	141
FY '13E Consolidated Net debt (Rs mn)	93170
Net debt/share (Rs)	28
Subsidiary value (Rs)	18
Target price (Rs)	253
CMP (Rs)	213
Upside (%)	19%

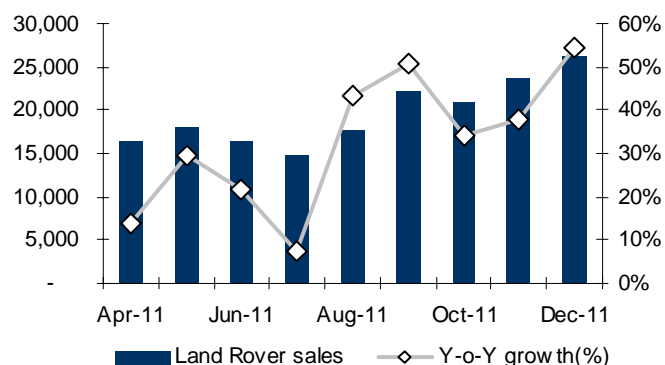
Risks and concerns

- Slowdown in China
- Continuation of weakness in rupee leading to weaker than expected margins
- CV sales falling higher than expected on slower pick up in industrial activity in domestic markets
- Eurozone worries becoming deeper.

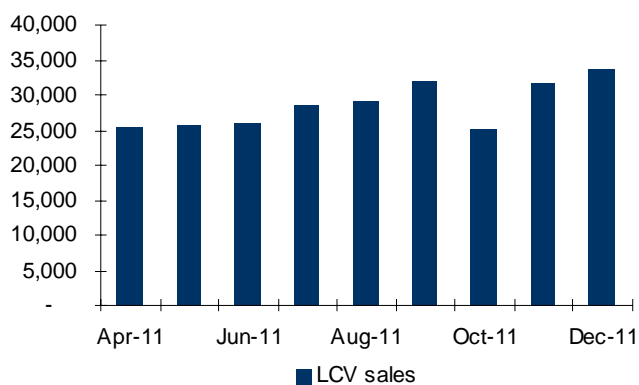
Jaguar sales driven by Jaguar XF launch



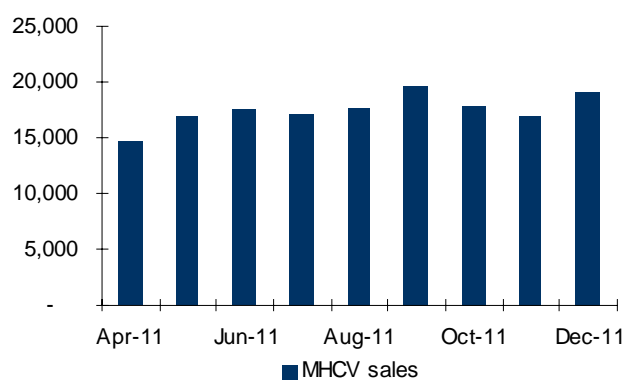
Land Rover sales driven by Evoque



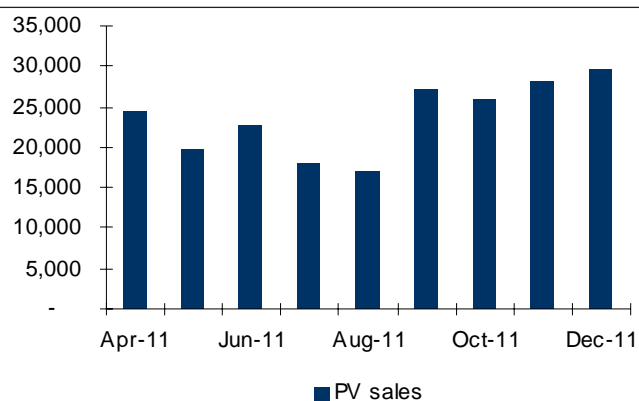
LCV sales remain buoyant



MHCV sales showing a steady growth



PV sales showing improvement off late



Global sales headed northwards



Financial Summary (Consolidated)

Income statement

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
Total Revenues	925,193	1,231,333	1,516,870	1,773,900
Raw Material Cost	539,228	686,175	1,006,654	1,162,219
Employee Cost	87,518	93,427	103,239	114,829
Other Exp	172,845	227,436	277,987	318,062
Exp. trnsfd to capital a/cs	45,925	57,412	48,306	48,306
EBITDA	91,124	177,799	177,296	227,096
<i>EBITDA Margin(%)</i>	9.8	14.4	11.7	12.8
Other Income	17,931	896	4,650	4,750
Depreciation	43,853	56,179	60,138	75,394
Exceptional items	2,596	-	-	-
Interest	22397	20454	17453	18682
PBT	40,208	102,062	104,355	137,770
Tax	10,058	12,164	16,588	24,180
PAT	30,151	92,208	87,767	113,589
Adj PAT	28,097	90,426	87,767	113,589
<i>Adj PAT Margins (%)</i>	3.0	7.3	5.8	6.4

Key Ratios

YE Mar	FY10	FY11	FY12E	FY 13E
Per Share Data (₹)				
Adj. EPS	8.9	28.5	26.3	34.0
CEPS	113.4	231.0	221.6	283.1
BVPS	129.3	302.1	409.3	575.3
DPS	15.8	23.3	17.5	28.6
Growth Ratios(%)				
Total revenues	30.5	33.1	23.2	16.9
EBITDA	314.9	95.1	-0.3	28.1
PAT	N/A	221.8	-2.9	29.4
EPS Growth	N/A	221.8	-7.7	29.4
Valuation Ratios (X)				
PE	24.1	7.5	8.1	6.3
P/CEPS	1.9	0.9	1.0	0.8
P/BV	1.6	0.7	0.5	0.4
EV/Sales	0.4	0.3	0.2	0.1
EV/EBITDA	4.4	2.0	1.9	1.0
Operating Ratios (Days)				
Inventory days	45	42	43	40
Receivable Days	28	20	22	23
Payables day	231	197	150	140
Net Debt/Equity (x)	3.21	1.14	0.71	0.24
Profitability Ratios (%)				
ROCE	42	71	56	60
ROE	34	47	32	30
Dividend payout	28	14	12	15

Source: Company, LKP Research

Balance sheet

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
SOURCES OF FUNDS				
Equity Share Capital	5,706	6,370	6,677	6,677
Reserves & Surplus	76,358	185,333	266,528	377,310
Total Networth	82,064	191,715	273,205	383,987
Total debt	351,084	327,914	326,091	287,100
Net Deferred Tax Liability	17,708	20,961	21,961	23,961
Minority interest	2,135	2,466	2,466	2,466
Total Liabilities	452,991	543,056	623,722	697,514
APPLICATION OF FUNDS				
Net block	295,904	317,643	377,504	392,110
Capital WIP	89,159	117,289	112,289	107,289
Goodwill	34,229	35,848	35,848	35,848
Investments	22,191	25,443	25,443	25,443
Current Assets				
Cash and Bank	87,433	109,479	133,467	193,930
Inventories	113,120	140,705	178,700	194,400
Sundry Debtors	71,912	68,774	91,428	111,780
Loan, Advances & others	151,993	191,391	197,212	204,017
Current Liab & Prov				
Current liabilities	340,773	371,147	413,693	445,783
Provisions	76,435	98,692	120,798	127,844
Net Current Assets	7,250	40,511	66,315	130,500
Total Assets	452,991	543,056	623,722	697,514

Cash Flow

YE Mar (₹mn)	FY10	FY11	FY12E	FY 13E
PAT	30,693	92,736	87,767	113,589
Depreciation	38,826	46,510	60,138	75,394
Interest	23,055	19,781	17,453	18,682
Chng in working capital	31,220	(16,943)	(1,816)	(3,723)
Tax paid	10,058	12,164	16,588	24,180
Other operating activities	(38,898)	(41,848)	(4,796)	(9,319)
CF from operations (a)	94,953	112,401	175,333	218,804
Capital expenditure	(84,532)	(81,128)	(115,000)	(85,000)
Chng in investments	(4,441)	(10,136)	0	0
Other investing activities	13,643	20,607	0	0
CF from investing (b)	(75,331)	(70,657)	(115,000)	(85,000)
Free cash flow (a+b)	19,623	41,745	60,333	133,804
Inc/(dec) in borrowings	23,438	(12,051)	(1,823)	(38,991)
Dividend paid (incl. tax)	(3,496)	(10,195)	(10,708)	(17,214)
Other financing activities	8,475	8,234	(14,970)	(17,136)
CF from financing (c)	28,417	(14,013)	(27,501)	(73,341)
Net chng in cash (a+b+c)	48,040	27,732	32,833	60,463
Closing cash & cash equiv.	70,282	100,634	133,467	193,930

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