

New launches to drive performance, Retain BUY

August 12, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs846	Rs1,230
EPS change FY12E/13E (%)	-11/-9
Target Price change (%)	-15
Nifty	5,138
Sensex	17,059

Price Performance

(%)	1M	3M	6M	12M
Absolute	(17)	(30)	(23)	(16)
Rel. to Nifty	(11)	(24)	(22)	(11)

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	1,381/786
Market Cap (Rs bn/USD mn)	455/10,036
Daily Avg Volume (No of sh)	712380
Daily Avg Turnover (US\$m)	16.0

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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- EBIDTA/APAT at Rs 42.3bn/21.7bn were ~7%/4% above est. driven by JLR. JLR reports FCF of GBP 117mn despite capex/R&D of GBP 400mn. Net D/E was 0.18x (Mar11 - 0.24x)
- Standalone business continues to disappoint. Company is facing cost/demand pressure across business segments
- Volume outlook remains strong for JLR with launch of Evoque, new XF (2.2 ltr diesel) and also XF 2012
- Lower FY12/FY13 EPS estimates by 11%/9% to Rs 138/155 to factor in deteriorating macro environment (lower valuation multiple). Retain BUY with a TP of Rs 1,230 (down ~15%)

JLR –ASP increases 5.6% QoQ driven by favorable geographical mix

Net sales at GBP 2.7bn was marginally higher than our est. of GBP 2.6bn led by improved realizations. Average selling price at GBP 43,682 increased ~14% YoY, ~5.6% QoQ driven by favorable geography mix (higher China sales) and lower discounts. Product mix continues to remain in favour of LR due to inventory clearance of Jaguar in US/UK in the run to the introduction of 2012 XF. Also company will be introducing a smaller XF (2.2 ltr diesel) in 2H

Wholesale Product Mix (%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Jaguar	26.1	26.0	20.9	15.2	18.3
Land rover	73.9	74.0	79.1	84.8	81.7
Total Volumes (units)	59,151	55,135	63,155	66,180	62,090

Retail Geography Mix	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
US	21.3%	21.4%	24.2%	17.3%	22.0%
UK	22.5%	26.2%	18.2%	28.6%	16.9%
Europe	25.0%	21.0%	21.9%	21.1%	21.8%
Russia	3.9%	5.6%	5.8%	4.3%	5.7%
China	11.3%	10.3%	13.4%	12.8%	15.7%
Others	15.9%	15.5%	16.5%	15.8%	17.9%
Total	59,100	56,420	58,368	67,029	63,276

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS %chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	924,130	74,183	8.0	10,751	16.3	(259.6)	15.8	51.9	10.8	6.6
FY11	1,230,719	166,941	13.6	89,192	135.1	729.6	64.7	6.3	4.5	2.9
FY12E	1,421,722	177,708	12.5	91,374	138.4	2.4	39.5	6.1	4.2	2.1
FY13E	1,606,448	199,807	12.4	102,149	154.8	11.8	32.5	5.5	3.7	1.6

Source: Company. Emkay Research

Quarterly Summary- Consolidated

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	270,556	287,820	316,852	356,105	335,725	24.1	(5.7)
Expenditure	232,002	247,804	271,966	311,387	293,365	26.4	(5.8)
as % of sales	85.8	86.1	85.8	87.4	87.4		
Consumption of RM	170,472	184,496	202,424	232,692	219,351	28.7	(5.7)
as % of sales	63.0	64.1	63.9	65.3	65.3		
Employee Cost	21,489	22,742	24,266	24,930	25,925	20.6	4.0
as % of sales	7.9	7.9	7.7	7.0	7.7		
Other expenditure	40,041	40,566	45,277	53,764	48,090	20.1	(10.6)
as % of sales	14.8	14.1	14.3	15.1	14.3		
EBITDA	38,554	40,016	44,886	44,719	42,359	9.9	(5.3)
Depreciation	10,115	10,949	12,388	13,104	11,432	13.0	(12.8)
EBIT	28,439	29,068	32,499	31,615	30,927	8.8	(2.2)
Other Income	346	195	99	256	761	120.2	197.0
Interest	5,616	5,313	4,993	4,532	6,219		
PBT	23,168	23,951	27,604	27,339	25,469	9.9	(6.8)
Total Tax	3,014	2,973	3,226	2,885	3,821	26.8	32.4
Adjusted PAT	20,154	20,978	24,378	24,454	21,648		(11.5)
(Profit)/loss from JV's/Ass/MI	(93)	(134)	(155)	(146)	(57)	(38.6)	(60.8)
Adj. PAT after MI	20,247	21,112	24,533	24,600	21,705		(11.8)
Extra ordinary items	(360)	1,118	(289)	1,775	(1,708)	(289)	
Reported PAT	19,887	22,230	24,244	26,375	19,997		(24.2)
Reported EPS	30.0	33.5	36.5	39.7	30.2		(24.0)
Margins (%)						(bps)	(bps)
EBIDTA	14.2	13.9	14.2	12.6	12.6	(163)	6
EBIT	10.5	10.1	10.3	8.9	9.2	(130)	33
EBT	8.6	8.3	8.7	7.7	7.6	(98)	(9)
PAT	7.4	7.3	7.7	6.9	6.4	(100)	(42)
Effective Tax rate	13.0	12.4	11.7	10.6	15.0	199	445

Source: Company. Emkay Research

JLR – Balance sheet further improves

JLR continued to improve on its balance sheet and cash flow generation. Net debt reduced sequentially from GBP 354mn to GBP 295mn in 1QFY12. Also net DE registered improvement. More importantly, this was after a capex/R&D spends of GBP 400mn.

GBP Mn	Q4FY11	Q1FY12
Balance Sheet		
Cash & cash equivalents	1,028	1,383
Other assets	5,648	5,966
Total assets	6,676	7,349
Total debt (excl. finance leases)	1,382	1,678
Other liabilities	3,819	3,993
Total liabilities	5,201	5,671
Total equity	1,475	1,678
Total liabilities & equity	6,676	7,349
Net debt	354	295
Net debt/equity (x)	0.24	0.18
Capex and R&D		
R&D		202
Capex		198
Total		400

Consolidated Net Sales – Marginally above est.

Net sales at Rs 336bn was ~2% above est. of Rs 329bn driven by strong performance across segments. Standalone top line at Rs 119bn was in line with our est. JLR at GBP 2.7bn was marginally above estimates driven by higher ASPs.

Net Sales Trend

Rs. Mn	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Tata Motors	104,163	115,041	115,196	146,006	118,979
JLR	153,869	161,725	186,344	200,248	197,763
Others (balance)	12,524	11,055	15,312	9,851	18,983
Total	270,556	287,820	316,852	356,105	335,725

Source: Company, Emkay research

Consolidated EBIDTA – ~7% above est.

Consolidated EBITA at Rs 42.3bn was ~7% above our est. of Rs 40bn driven by stronger top line and better operating performance. JLR reported EBIDTA of GBP 408mn (est. GBP 400mn) before amortization of product development expenses. However, EBIDTA for standalone business at Rs 9.7bn (our est of Rs 11.4bn) was lower than our est. impacted by higher other expenses at 18.9% (est. 15.4%).

EBIDTA and margins trend

Rs mn	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Tata Motors	11,557	10,947	11,692	12,761	9,666
JLR (pre product dev.)	23,808	26,815	32,435	31,693	29,752
Others (balance)	3,189	2,255	759	265	2,941
Total	38,554	40,016	44,886	44,719	42,359

EBIDTA margins (%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Tata Motors	11.1	9.5	10.1	8.7	8.1
JLR	15.5	16.6	17.4	15.8	15.0
Others (balance)	25.5	20.4	5.0	2.7	15.5
Total	14.2	13.9	14.2	12.6	12.6

Source: Company, Emkay Research

Consolidated APAT– above our est

APAT at Rs 21.7bn was above our est of Rs 20.8bn. This is despite higher interest cost of Rs 6.2bn (excluding the one time cost of premium on pre payment of bonds of GBP 20mn). Also, the company had a forex loss of Rs 570mn during the quarter. Standalone net profit at Rs 4bn was lower than our est. of Rs 4.4bn mainly due to weaker operating performance.

Net profit trends

Rs mn	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Tata Motors	3,957	4,327	4,110	5,726	4,013
JLR	15,033	17,114	18,543	23,349	15,970
Others (balance)	897	789	1,591	(2,699)	14
Total	19,887	22,230	24,244	26,375	19,997

Net profit margins	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Tata Motor	3.8	3.8	3.6	3.9	3.4
JLR	9.8	10.6	10.0	11.7	8.1
Others (balance)	(4.1)	(4.8)	4.0	(42.9)	(9.5)
Total	7.4	7.7	7.7	7.4	6.0

Source: Company, Emkay Research

Revision in Estimates

We have lowered our EBIDTA margins by 110 bps/90 bps for FY12/13 to factor in higher pressure on profitability in domestic business as well as JLR (product mix and macro environment). At the current juncture we are leaving our JLR volume estimates unchanged at 275,582 units /302,225 units for FY12E/13E. Our volume estimates factor in a volume growth of >15% in 2H on back of Evoque, XF 2012 model as well as new XF (2.2 ltr).

Rs mn	FY12E			FY13E		
	Earlier	Revised	%Change	Earlier	Revised	%Change
Volumes	1,233,638	1,233,638	0.0	1,398,193	1,398,193	-
Sales	1,423,011	1,421,722	(0.1)	1,610,407	1,606,448	(0.2)
EBIDTA	192,852	177,708	(7.9)	213,455	199,807	(6.4)
EBIDTA margins (%)	13.6	12.5		13.3	12.4	
Net Profits	102,620	91,374	(11.0)	112,558	102,149	(9.2)
DEPS	155.5	138.4	(11.0)	170.0	154.8	(9.0)

Source: Company, Emkay Research

Valuations and View

At CMP of Rs 846, the stock trades at PER of 6.1x/5.5x and EV/EBIDTA of 4.2x/3.7x our FY12 and FY13 estimates respectively. We are enthused by FCF generation at JLR despite a GBP 400mn capex. Similarly, there is a sequential reduction in net debt. We retain our BUY rating with a revised TP of Rs 1,230. We have lowered our target multiple for JLR from 4x to 3.5x to factor in the deteriorating macro environment.

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	532,389	603,727
JLR	823,290	930,233
Others (ex TMFSL)	52,557	57,191
Total	1,408,235	1,591,151
EBIDTA		
TML	46,788	53,671
JLR	116,258	129,804
Others (ex TMFSL)	7,956	8,753
Total	171,003	192,228
Target multiple		
TML	7.5	7.5
JLR	3.5	3.5
Others (ex TMFSL)	6.8	6.8
Target EV		
TML	350,913	402,532
JLR	406,905	454,312
Others	53,706	59,083
Total	811,524	915,928
Less: Net Debt (ex TMFSL)	109,629	105,406
Target MC	701,895	810,522
Share capital nos mn)	660	660
Value per share	1,060	1,225
Less MI	30	30
Add:TMFSL	35	35
Net Value per share	1,065	1,230

Source: Company, Emkay Research

Key con call extracts

- JLR is witnessing slight moderation in demand from US and UK geographies. China and Russia continue to remain strong.
- Jaguar performance to improve driven by low base effect, inventory correction and strong focus on ramping up dealer network in US and China. Also, expectation of new XF launch is leading to softening of demand for the current model in US and UK. Expect new XF launch to drive volume growth.
- Landrover Evoque is scheduled for launch on Sep 2011. Orders as of June 2011 end stand at 18,000 units.
- JLR margins to remain subdued due to Evoque product launch related costs, unfavorable product mix with Evoque ramp up, higher R&D/prod. dev expenses and currency movement.
- Domestic business continues to face margin pressures on subdued demand and high commodity prices. Company has taken a price increase of ~1.5% for CVs in July. Freight rates have remained flat for this quarter despite rise in diesel prices.
- Company hedges forex exposure on a 12 month rolling basis. ~60-70% of USD/GBP exposure has been hedged for next quarter and lower exposure of subsequent quarters.
- Current capex stands at Rs 37bn for standalone business and GBP 370mn for JLR.
- Consolidated Net debt (excl. vehicle finance) stands at Rs 145bn (Standalone of Rs 137bn).

Financials - Consolidated

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	924,130	1,230,719	1,421,722	1,606,448
Growth (%)	29.5	33.2	15.5	13.0
Expenditure	849,947	1,063,778	1,244,014	1,406,640
Materials Consumed	614,954	790,084	933,352	1,055,816
Employee Cost	87,518	93,427	101,337	115,506
Other Exp	147,475	180,268	209,324	235,318
EBITDA	74,183	166,941	177,708	199,807
Growth (%)	122.0	125.0	6.4	12.4
EBITDA margin (%)	8.0	13.6	12.5	12.4
Depreciation	38,871	46,555	49,695	57,527
EBIT	35,312	120,386	128,013	142,280
EBIT margin (%)	3.8	9.8	9.0	8.9
Other Income	7,352	896	2,672	2,699
Interest expenses	22,397	20,454	24,112	25,582
PBT	20,267	100,827	106,573	119,397
Tax	10,058	12,164	15,199	17,248
Effective tax rate (%)	49.6	12.1	14.3	14.4
Adjusted PAT	10,209	88,664	91,374	102,149
Growth (%)	(261.1)	768.5	3.1	11.8
Net Margin (%)	1.1	7.2	6.4	6.4
(Profit)/loss from JV's/Ass/MI	(542)	(528)	-	-
Adj. PAT After JVs/Ass/MI	10,751	89,192	91,374	102,149
E/O items	4,381	3,544	-	-
Reported PAT	15,131	92,736	91,374	102,149
Growth (%)	(259.6)	729.6	2.4	11.8

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	12,915	99,931	103,901	116,698
Depreciation	38,871	46,555	49,695	57,527
Interest Provided	22,397	20,454	24,099	25,582
Other Non-Cash items	(14,646)	(31,999)	-	-
Chg in working cap	43,790	(10,377)	19,487	(11,333)
Tax paid	(10,058)	(12,164)	(15,199)	(17,248)
Operating Cashflow	93,269	112,402	181,983	171,226
Capital expenditure	(36,217)	(104,339)	(140,631)	(129,827)
Free Cash Flow	57,052	8,063	41,353	41,399
Other income	7,352	896	2,672	2,699
Investments	(46,466)	32,786	804	-
Investing Cashflow	(75,331)	(70,657)	(137,155)	(127,128)
Equity Capital Raised	565	33,777	223	-
Loans Taken / (Repaid)	2,185	14,916	(30,000)	(30,000)
Interest Paid	(22,397)	(20,454)	(24,112)	(25,582)
Dividend paid (incl tax)	(10,019)	(14,872)	(12,785)	(14,293)
Income from investments	-	-	-	-
Others	54,784	-	-	-
Financing Cashflow	25,119	13,367	(66,674)	(69,875)
Net chg in cash	43,058	55,111	(21,846)	(25,776)
Opening cash position	41,213	87,433	109,479	87,646
Closing cash position	84,272	142,545	87,633	61,870

* 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	263,927	351,783
Net worth	83,976	191,715	270,527	358,383
Minority Interest	2,135	2,466	2,466	2,466
Secured Loans	212,900	199,271	189,271	179,271
Unsecured Loans	139,023	128,643	108,643	88,643
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	585,545	643,401
Gross Block	682,747	750,477	891,108	1,020,935
Less: Depreciation	344,135	396,987	446,682	504,209
Net block	338,612	353,491	444,426	516,726
Capital work in progress	80,680	117,289	117,289	117,289
Investment	22,191	25,443	24,639	24,639
Current Assets	425,296	510,349	527,329	593,414
Inventories	113,120	140,705	154,113	194,291
Sundry debtors	71,912	68,774	60,576	83,204
Cash & bank balance	87,433	109,479	87,646	61,870
Loans & advances	152,807	191,372	224,987	254,043
Other current assets	24	19	6	6
Current lia & Prov	417,208	469,838	528,138	608,666
Current liabilities	340,773	371,147	410,877	475,917
Provisions	76,435	98,692	117,260	132,749
Net current assets	8,088	40,511	(809)	(15,252)
Misc. exp	-	-	-	-
Total Assets	449,571	536,733	585,545	643,401

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	8.0	13.6	12.5	12.4
Net Margin	1.1	7.2	6.4	6.4
ROCE	9.9	24.6	23.3	23.6
ROE	15.8	64.7	39.5	32.5
RoIC	13.8	44.3	40.0	35.8
Per Share Data (Rs)				
EPS	16.3	135.1	138.4	154.8
CEPS	75.2	205.7	213.7	241.9
BVPS	127.2	290.5	409.9	543.0
DPS	13.5	20.0	17.2	19.2
Valuations (x)				
PER	51.9	6.3	6.1	5.5
P/CEPS	11.2	4.1	4.0	3.5
P/BV	6.6	2.9	2.1	1.6
EV / Sales	0.9	0.6	0.5	0.5
EV / EBITDA	10.8	4.5	4.2	3.7
Dividend Yield (%)	1.6	2.4	2.0	2.3
Gearing Ratio (x)				
Net Debt/ Equity	3.0	1.0	0.7	0.5
Net Debt/EBIDTA	3.3	1.2	1.1	0.9
Working Cap Cycle (days)	(61.5)	(47.9)	(50.4)	(45.1)

Recommendation History: Tata Motors – TTMT IN

Date	Reports	Reco	CMP	Target
28/07/2011	Tata Motors JLR FY11 Con Call Update	Buy	951	1,450
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
10/08/2011	Escorts 3QSY11 Result Update	Not Rated	79	NR
08/08/2011	Mahindra & Mahindra 1QFY12 Result Update	Buy	666	780
05/08/2011	Auto Sector Update			
03/08/2011	Eicher Motors Company Update	Buy	1,335	1,700

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