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IDBI capital

MANAGEMENT VISIT NOTE

Tata Motors Ltd.

India business restructuring in process

BUY

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Nifty: 5,972; Sensex: 19,667

CMP	**Rs328**
Target Price	**Rs351**
Potential Upside/Downside	**+7%**

Key Stock Data

Sector	Automobile
Bloomberg / Reuters	TTMT IN / TAMO.BO
Shares o/s (mn)	2,708
Market cap. (Rs mn)	887,459
Market cap. (US$ mn)	16,248
3-m daily average vol.	1,122,560

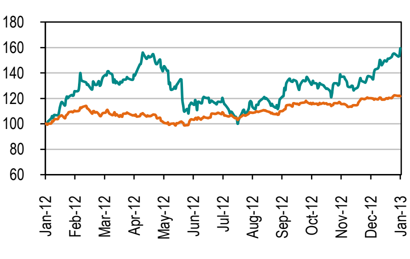
Price Performance

52-week high/low			Rs202/335
	-1m	-3m	-6m
Absolute (%)	17	22	60
Rel to Sensex (%)	16	17	38

Shareholding Pattern (%)

Promoters	34.74
FIIs/NRIs/OCBs/GDR	45.34
MFs/Banks/FIs	11.83
Govt.	0.09
Non Promoter Corporate	0.42
Public & Others	7.58

Relative to Sensex



Source: Capitaline

We met the top management of Tata Motors' India business. Following are the key takeaways:

Key Highlights

- **Changes in organisation structure**

Tata Motors' India business has created 3 new groups – (i) **Strategy Group** to have a enlarged view on the business prospects and strategies going ahead; (ii) **Central Purchasing Group** to be a single point of purchasing and (iii) **Program Planning Organisation Group** to streamline planning of various business programs within the organisation. All three Groups would be reporting to Mr. Karl Slym, MD, Tata Motors and have been created to channelize energies more efficiently towards business operations.

- **Passenger vehicles (PVs): Focus on new product platforms/engines and improving brand equity**

Over the past 3 months (from the time Mr. Karl Slym joined Tata Motors) the company has identified problem areas in its car business namely (i) Product quality issues; (ii) Perception as a 'taxi' product and; (iii) Tata Motors' cars not as frequently and effectively refreshed as those of peers.

Going ahead, the focus would be on new product development across platforms and engine sizes and improving brand equity of Tata Motors models. To this end, the company has laid down capex plans of >Rs30 bn p.a. on India business over the next 3-5 years, of which >50% would be spent on PVs, with primary focus on new products (it already has capacities in place and hence not much will be spent on capacity expansion). It has set up R&D centre in Pune, which would further boost its product development capabilities. The focus would also be on enhancing customer experience through improved after sales service, which in turn would aid in improving brand equity.

In addition, the focus on exports is also likely to increase, which will also aid in better capacity utilisation. The company is looking at optimising synergies between Tata Motors PVBU and JLR, with focus being on back-end, which includes, sourcing, designing, etc. It categorically stated that front-end of both the car brands would remain separate.

On *Nano*, management admitted that the product was positioned wrongly as a replacement for 2-w or a product which is affordable to lower section of the society. The company will reposition *Nano* as a second vehicle in metros, a first vehicle in smaller cities, a product that provides parking convenience, and expects better volume traction going ahead.

Table: Financial snapshot (consolidated) **(Rs mn)**

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	1,216,037	177,800	14.6	90,426	28.4	11.6	7.1	66.1	24.8
FY12	1,648,545	237,005	14.4	143,480	45.2	7.2	5.6	54.8	24.3
FY13E	1,945,611	269,207	13.8	133,185	41.8	7.8	4.8	34.4	20.6
FY14E	2,291,301	327,835	14.3	146,584	46.0	7.1	3.8	28.9	21.8

Source: Company; IDBI Capital Research

- **Commercial vehicles (CVs): Focus on sustaining market share and expanding exports reach**

In commercial vehicles business, the focus would be on sustaining market share in the light of intensifying competition. To this end, it is looking at enhancing customer experience him with a package that minimises total cost of ownership. For instance, it has introduced 4-yr warranty scheme on heavy trucks (vs. 2 years earlier), which as per mgmt is unlikely to increase warranty costs materially. However, it will have a positive perceptible image among customers. In CVs, it already has the products in place across categories and capacity also would not be a constraint as it currently has capacity of 1 mn units p.a., with P'nagar capacity at 450k units (operating at 85-90% utilisation). So large part of capex would be on product line extension and platform proliferation.

Management expects share of higher tonnage vehicles like tippers and tractor trailers to move up structurally though there could be some intermittent volatility during downturns. It sees current MHCV demand scenario under pressure with heavy discounting across players (the company is currently working on 5-days a week on one shift basis in MHCVs). However, it expects the cycle to turn in the coming months, and the biggest challenge at that time would be ramp up in supply chain (vendors), which also is operating at low utilisation and hence has resorted to production cuts. Also, learnings from the last MHCV down cycles have made the company focus more on counter cyclical products like SCVs (Ace family), spare parts and defense, which have enabled it to withstand the down cycle better. In addition, the company has managed to bring down break even levels to 35-40% from 65-70% (by reducing fixed cost %). It expects SCV demand momentum to sustain over the medium term as currently Light to Medium & Heavy ratio is 3x in India, while the ratio is 6-8x in Europe and 18-20x in North America and hence there is significant scope for strong growth.

The company witnesses resistance among truck operators towards change in technology led by higher emission norms and sees need for more trained mechanics going forward. However, it expects roadside mechanics to remain relevant in the overall scheme of things. The company is also running education program for training roadside mechanics.

The company has seen freight movement being impacted across sectors, with mining and construction material (steel, cement) being worst hit and agriculture being least hit.

Going forward, the company will focus on enhancing its exports share in CV business with focus on markets like Africa, Asia, Middle East, Eastern Europe and Latin America. Currently, its key markets are South Asia (Sri Lanka, Bangladesh and Nepal), South Africa, parts of Middle East. The company enjoys >50% market share across most categories in Sri Lanka, Bangladesh and Nepal.

Outlook and Valuation

The meeting was focused on India business and the company seems to be on the right track in terms of the initial strategies being in place, especially for its car business. **Tata Motors remains our top pick in Autos**, led by improved volume traction at JLR over next few months led by starting of dispatches of new *Range Rover*, which in turn will boost realisation and margin. Also, JLR has strong product pipeline over next 2-3 years with new *RR* launch, followed by *RR* Sport in H1FY14, *F-Type* in CY13, variants of Jaguar models and smaller Jag in CY14. **Maintain BUY with price target of Rs351.**

Financial Summary (Consolidated)

Profit & Loss Account (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net sales	**1,216,037**	**1,648,545**	**1,945,611**	**2,291,301**
Growth (%)	*33.5*	*35.6*	*18.0*	*17.8*
Operating expenses	(1,052,919)	(1,419,540)	(1,702,697)	(1,990,683)
EBITDA	**177,800**	**237,005**	**269,207**	**327,835**
Growth (%)	*106.4*	*33.3*	*13.6*	*21.8*
Depreciation	(56,180)	(70,146)	(86,812)	(108,579)
EBIT	**121,620**	**166,859**	**182,395**	**219,256**
Interest paid	(20,454)	(29,822)	(29,822)	(29,822)
Other income	896	6,618	25,423	11,614
Pre-tax profit	**104,372**	**135,339**	**171,996**	**201,048**
Tax	(12,164)	400	(45,729)	(55,725)
Effective tax rate (%)	*11.7*	*(0.3)*	*26.6*	*27.7*
Net profit	**92,208**	**135,739**	**126,267**	**145,324**
Adjusted net profit	**90,426**	**143,480**	**133,185**	**146,584**
Growth (%)	*738.0*	*58.7*	*(7.2)*	*10.1*
Shares o/s (mn nos)	*3,189*	*3,174*	*3,190*	*3,190*

Cash Flow Statement (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	104,372	135,339	171,996	201,048
Depreciation	52,852	98,138	67,812	87,879
Tax paid	(9,062)	(37,980)	1,926	(56,397)
Chg in working capital	(19,762)	27,466	15,840	24,523
Other operating activities	-	-	0	0
Cash flow from operations (a)	**128,399**	**222,963**	**257,575**	**257,054**
Capital expenditure	(99,999)	(228,053)	(200,000)	(208,500)
Chg in investments	(3,251)	(63,735)	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	**(103,250)**	**(291,787)**	**(200,000)**	**(208,500)**
Equity raised / (repaid)	671	(30)	32	-
Debt raised / (repaid)	(23,818)	143,384	-	-
Dividend (incl. tax)	(14,670)	(14,637)	(16,406)	(15,331)
Chg in minorities	(154)	(218)	-	-
Other financing activities	39,485	8,610	3,356	1,836
Cash flow from financing (c)	**1,514**	**137,110**	**(13,017)**	**(13,495)**
Net chg in cash (a+b+c)	**26,663**	**68,285**	**44,557**	**35,059**

Balance Sheet (Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	432,211	562,125	694,313	814,934
Investments	25,443	89,177	89,177	89,177
Other non-curr assets	21,210	69,194	19,608	20,280
Current assets	**510,317**	**711,679**	**835,204**	**933,383**
Inventories	140,705	182,160	228,581	267,242
Sundry Debtors	65,257	82,368	109,915	129,374
Cash and Bank	114,096	182,381	226,939	261,997
Loans and advances	178,422	249,952	254,952	259,952
Total assets	**989,181**	**1,432,176**	**1,638,302**	**1,857,775**
Shareholders' funds	**191,715**	**331,499**	**442,311**	**573,564**
Share capital	6,377	6,348	6,380	6,380
Reserves & surplus	185,338	325,152	435,931	567,185
Total Debt	**328,106**	**471,490**	**471,490**	**471,490**
Secured loans	328,106	471,490	471,490	471,490
Unsecured loans	-	-	-	-
Other liabilities	22,927	24,586	24,586	24,586
Curr Liab & prov	**443,967**	**601,530**	**696,338**	**783,982**
Current liabilities	344,396	473,112	555,078	628,596
Provisions	99,571	128,418	141,259	155,385
Total liabilities	**795,000**	**1,097,605**	**1,192,413**	**1,280,057**
Total equity & liabilities	**989,181**	**1,432,176**	**1,638,302**	**1,857,775**
Book Value (Rs)	**60**	**104**	**139**	**180**

Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj. EPS (Rs)	28.4	45.2	41.8	46.0
Adj. EPS growth (%)	649.8	59.4	(7.6)	10.1
EBITDA margin (%)	14.6	14.4	13.8	14.3
Pre-tax margin (%)	8.6	8.2	8.8	8.8
ROE (%)	66.1	54.8	34.4	28.9
ROCE (%)	24.8	24.3	20.6	21.8
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.3	1.4	1.3	1.3
Leverage factor (x)	6.7	4.6	4.0	3.4
Net margin (%)	7.4	8.7	6.8	6.4
Net Debt / Equity (x)	1.1	0.9	0.6	0.4
Working Capital & Liquidity ratios				
Inventory days	42	40	43	43
Receivable days	20	18	21	21
Payable days	97	94	96	96

Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	11.6	7.2	7.8	7.1
Price / Book value (x)	5.5	3.1	2.4	1.8
PCE (x)	7.1	4.9	4.8	4.1
EV / Net sales (x)	1.0	0.8	0.7	0.5
EV / EBITDA (x)	7.1	5.6	4.8	3.8
Dividend Yield (%)	1.4	1.4	1.6	1.5

Source: Company; IDBI Capital Research

Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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