

MANAGEMENT VISIT NOTE

Tata Motors Ltd.

India business restructuring in process

BUY

Analyst

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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 an 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.

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 |

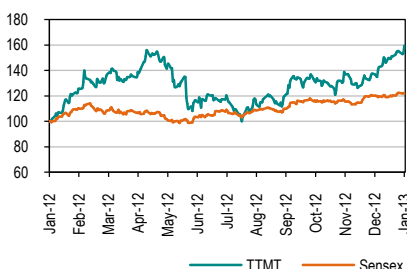
Price Performance

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

Shareholding Pattern (%)

| | |
|------------------------|-------|
| Promoters | 34.74 |
| FII/IRIs/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

Table: Financial snapshot (consolidated)

| 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 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 |

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 |

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 |

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 |



Notes

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|--------------------------------|-------------------|-----------------------------|
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Key to Ratings**Stocks:**

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

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