

Rolling up sleeves

Capex focused on CVs, PVs product development

We met Mr Karl Slym, MD (India Operations), Tata Motors to understand the strategic direction of the new management for India operations. Key takeaways:

- Organizational changes under new India MD to improve competitiveness, with the aim to be credible #2 player in PVs by 2020 and maintain market leadership in CVs.
- Has set up a road map to revive PV business by focusing on consumers and offering exciting product portfolio, improving quality and improving overall consumer experience in sales and service. While product portfolio changes would need at least 2 years, it plans to improve other aspects over next 2 years.
- As the CV business is undergoing cyclical downturn, it is focused on being prepared for an eventual recovery. Also, Tata Motors (TTMT) plans to maintain its leadership by offering technologically superior products, with lowest total cost of ownership and superior service network. It expects M&HCV industry to post 10-15% CAGR over the next 5-10 years, while LCVs structural growth remains intact.
- TTMT's capex focus is on product development in both businesses as capacities are in place for future growth. While CVs would require leveraging of existing new platforms, PVs would require development of new platforms.
- The stock is trading at 8.2x FY14E cons. EPS of INR40 and 7.6x FY15E cons. EPS of INR43. The DVR stock trades at 4.6x FY14E and 4.2x FY15E cons. EPS. Buy with a target price of INR385 (FY15 SOTP based) for ordinary share and INR231 for DVR (~40% discount to ordinary share's target price).

Tata Motors



Mr. Karl Slym

MD - India Business

Mr. Karl Slym, an alumnus of Stanford University and a Sloan Fellow, leads all operations of Tata Motors in India and international markets, including South Korea, Thailand, Spain, Indonesia, South Africa. Mr. Slym had been the Executive Vice President & Board Member, SGMW Motors, China (a GM joint venture). He had a 17-year career in General Motors holding positions in various geographies.

Multiple organizational changes to improve competitive positioning, especially in PV business

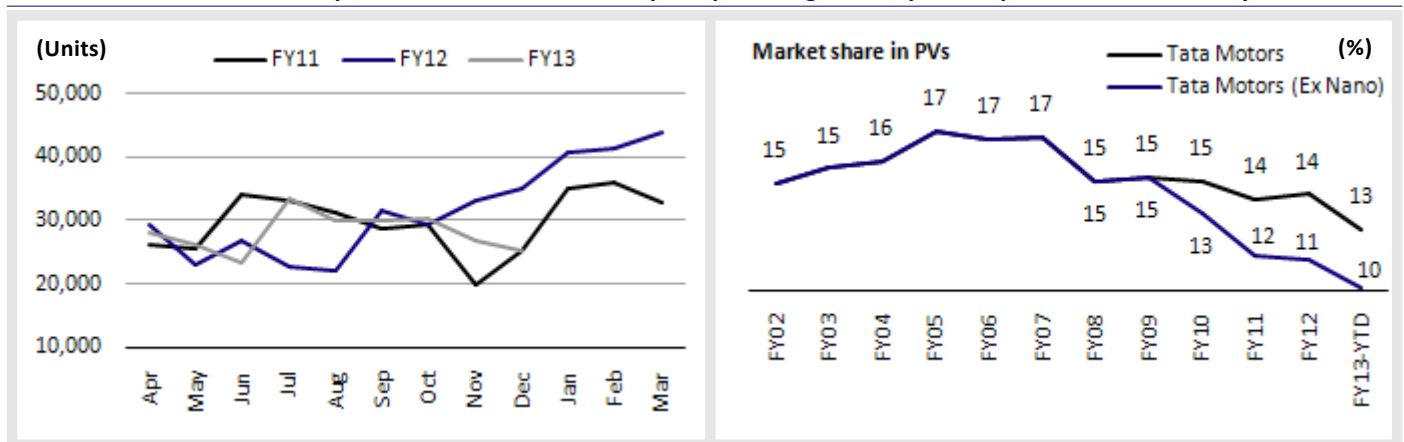
- Under Mr Karl Slym, TTMT has made organizations changes which include:
 - Appointed Mr Ranjit Yadav as Head of Passenger Vehicle Business (erstwhile Country Head for IT & Mobile products at Samsung India).
 - Mr Ravi Pisharody would continue as Head of Commercial Vehicle Business.
 - Appointed Mr M Venkatram for global sourcing (from General Motors, Korea).
 - Changed its Vision & Mission statement.
- With a focus to improve competitive positioning it has:
 - Created Global Sourcing function to reduce cost, improve quality and tap global supply chain.
 - Created Strategy function within TTMT, as against strategic decision making at the group level earlier.
 - Program Planning function to manage products over its entire lifecycle.
- It plans to further improve synergies between its four engineering centers (in India, UK, Italy and Korea) and integrate backend with JLR on designing, engineering, sourcing etc.

Passenger vehicle business - multiple challenges but targets to be credible #2 by 2020

- Based on its feedback from customers, dealers and vendors, the new management has realized its major problem areas as:
 - Lack of new/refreshed products.
 - Poor (perception) quality of the product.
 - Higher acceptance of TTMT's PVs in fleet impacts consumer behavior.

- As a result of the above feedback, the new team is focusing on:
 - Investing in product developments, although it will take at least 2 years.
 - Leverage on parent's brand equity to build product branding and restructure existing branding (if necessary).
 - Building excellence in buying and servicing process, with an objective to improve consumer's perception for the products.
 - Distribution and service network is strong, but focus is on improving dealership to enhance consumer experience in sales and service.
 - Repositioning of Nano to excel consumer's perception.
- It expects to be credible no. 2 player in the domestic passenger vehicle industry by 2020.

PV volumes have been under pressure due to weak brand perception, higher competitive pressures and industry slowdown



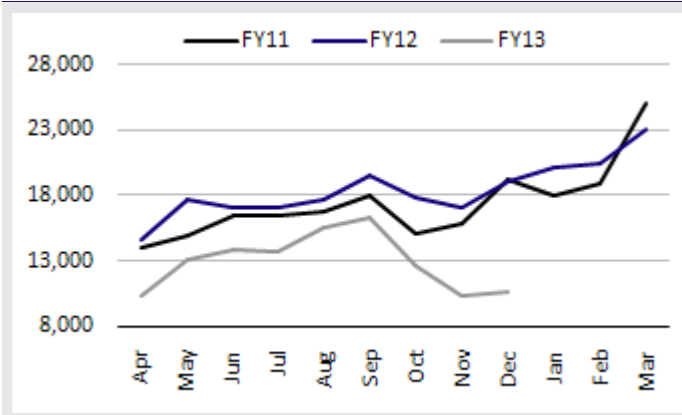
Source: Company/MOSL

Commercial vehicle business - focus to maintain leadership amid increasing competition

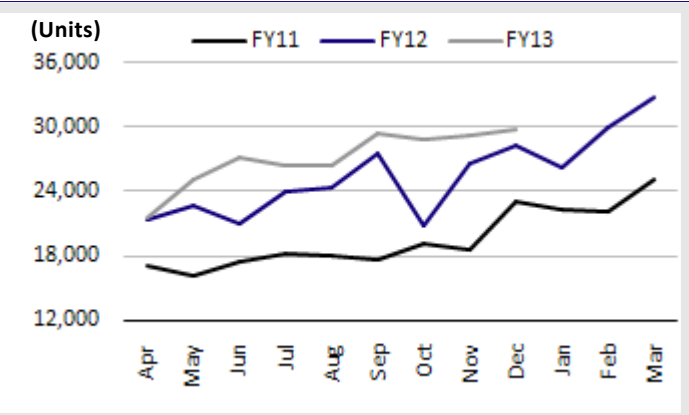
- Based on its past experience of CV cycle downturn:
 - It continues to focus on flexibility and lowering of fixed costs, thereby reducing breakeven levels of 35-40% utilization.
 - Ramp up other allied businesses (LCVs, spares, defence etc) to reduce cyclicity.
 - Be prepared for recovery in the cycle, especially of the supply chain.
- To tackle increasing competition in the CV industry, it is focusing on:
 - Product planning to ensure it has right products to compete.
 - Reduce lifecycle cost of ownership, in turn focusing on cost reduction and ensuring availability of parts at reasonable price.
 - Offer higher warranties (recently doubled warranties on M&HCVs to 4 years).
 - Also, TTMT is educating road side mechanics to improve their skill sets to service smaller problems of new generation trucks, though they would not have full service capability due to increasing electronic components.
- While M&HCV would remain a cyclical business, it expects 10-15% CAGR in tonnage growth over next 5-10 years. Also, it expects LCVs to continue on a secular growth path due to very low penetration at 3x for M&HCVs in India (v/s 6-8x in China, South Africa and Turkey and 18-20x in developed markets).

- In M&HCV, company continues to witness proliferation of hub and spoke model, and resultant polarization of CV industry, although downcycle pushes back this secular trend. For eg, in M&HCVs, its best selling model is 31-tonner, against the 25-tonner two to three years ago. It has recently introduced the 37-ton truck.
- Increasing electronic components poses challenges for servicing of trucks by road side vendors. Hence, the servicing share at company managed centers is increasing and is an attractive opportunity to increase revenues.
- Due to poor M&HCV demand, it is operating a single shift, 5 days a week.
- TTMT is also planning to explore new export markets for its CVs. While it is currently strong in Asia (Bangladesh, Nepal, Sri Lanka) and parts of MENA, company plans to enter other Asian markets, entire MENA, East Europe and parts of LatAm. It now has a product portfolio (Prima, Ultra, Xenon, Super Ace etc) to cater to these markets.

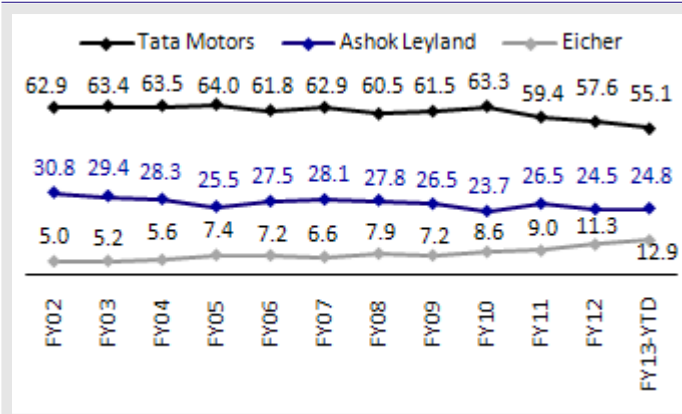
MHCVs volumes have declined sharply (units)



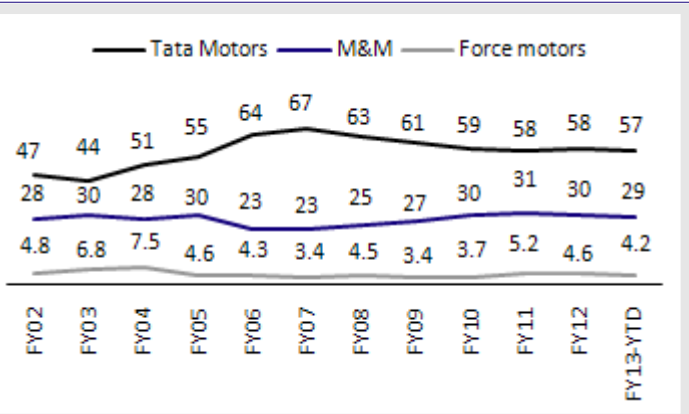
LCVs volumes remains strong led by stable consumption spend



MHCVs market share has declined with the entry of new players



LCV market share has declined marginally due to competitive launches (%)



Source: Company/MOSL

Capex focused on product development in both CVs, PVs as capacities in place

- Focus of its capex program is on product development. In CVs, it plans to leverage the new product platforms developed in the past 2-3 years and in PVs, it plans to develop new product platforms.
- TTMT does not plan to increase capacities in either business as they are adequate for future growth.

- In PVs, based on the current R&D pipeline, it does not plan to launch new platforms for the next 2 years at least. It will continue to invest in powertrain technologies and also source it from the Fiat JV.
- Of the annual capex program of ~INR30b, it would be investing over INR15b in PV business.

Valuation and view

- We believe JLR is on the strategic path and is investing in the right areas, resulting in its evolution as a stronger and balanced player in the luxury vehicle market.
- The CV business, which contributes ~35% to fair value, is expected to witness recovery in FY14, resulting in significant improvement in standalone operations. However, we expect no improvement in PV business in the next 2 years.
- The stock is trading at 8.2x FY14E cons. EPS of INR40 and 7.6x FY15E cons. EPS of INR43. The DVR stock trades at 4.6x FY14 and 4.2x FY15 cons. EPS. Buy with TP of INR385 (FY15 SOTP based) for ordinary share and INR231 for DVR (~40% discount to ordinary share's TP).

Tata Motors: Sum-of-the-parts valuation (INR b)

	Valuation Parameter	Multiple (x)	FY14E	FY15E
SOTP Value				
Tata Motors - Standalone	EV/EBITDA	8	367	454
JLR (Adj for R&D capitalization)	EV/EBITDA	4	683	737
HV Axles	EV/EBITDA	4	8	10
HV Transmission	EV/EBITDA	4	8	9
Tata Technologies	EV/EBITDA	4	13	15
Tata Daewoo	EV/EBITDA	4	13	14
Total EV			1,092	1,240
Less: Net Debt (Ex FCCB & TMFL)			93	62
Add: Other Investments				
Tata Motors Finance	P/BV	1	28	32
Other Associates/JVs	Carrying Cost		11	10
Tata Sons	20% discount to mkt value		59	59
Total Equity Value			1,098	1,279
Fair Value (INR/Sh) - Ord Sh	Fully Diluted		330	385
Upside (%)			1.1	17.8
Fair Value (INR/Sh) - DVR	@40% discount		198	231
Upside (%)			10.7	28.9

Source: Company/MOSL

Income Statement (Consolidated)				(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E	2015E
Total Income	925,193	1,221,279	1,656,545	1,923,590	2,139,936	2,396,886
Change (%)	30.5	32.0	35.6	16.1	11.2	12.0
Expenditure	839,051	1,043,129	1,419,540	1,659,993	1,836,918	2,064,929
EBITDA	86,142	178,150	237,005	263,598	303,017	331,958
% of Net Sales	9.3	14.6	14.3	13.7	14.2	13.8
Depreciation	38,871	46,555	56,254	67,503	77,703	89,280
EBIT	47,270	131,595	180,751	196,095	225,314	242,678
Product Dev. Exp.	4,982	9,976	13,892	15,559	16,927	18,724
Interest	22,397	23,853	29,822	32,627	28,865	27,873
Other Income	416	4,295	6,618	8,473	9,061	8,724
EO Exp/(Inc)	-14,075	0	1,774	4,506	0	0
Forex Gain/ (Loss)	-845	-2,310	6,541	0	0	0
PBT	35,226	104,372	135,339	151,876	188,582	204,804
Tax	10,058	12,164	-400	48,495	55,882	61,301
Effective Rate (%)	28.6	11.7	-0.3	31.9	29.6	29.9
Reported PAT	25,169	92,208	135,739	103,381	132,701	143,503
Minority Interest	-303	-485	-823	-882	-735	-877
Share of profit of associate	845	1,014	249	-126	852	911
Net Profit	25,711	92,736	135,165	102,374	132,818	143,536
Adj. PAT	15,051	90,695	125,568	105,442	132,818	143,536
Change (%)	-171.2	502.6	38.5	-16.0	26.0	8.1

E: MOSL Estimates; * Normalized for capitalized expenses

Balance Sheet (Consolidated)				(INR Million)		
Y/E March	2010	2011	2012	2013E	2014E	2015E
Share Capital	5,706	6,377	6,348	6,559	6,559	6,649
Reserves	76,359	185,338	320,638	425,855	539,488	668,921
Net Worth	82,065	191,715	326,985	432,414	546,047	675,570
Loans	351,924	303,622	471,490	444,338	441,255	432,197
Deferred Tax	11,536	14,638	-23,743	-23,743	-23,743	-23,743
Capital Employed	447,660	512,440	777,803	856,963	968,247	1,089,589
Application of Funds						
Gross Fixed Assets	648,518	715,231	897,791	1,183,542	1,378,407	1,583,149
Less: Depreciation	344,135	396,987	495,125	562,628	640,331	729,611
Net Fixed Assets	304,383	318,245	402,667	620,915	738,076	853,538
Capital WIP	80,680	117,289	159,458	60,000	70,000	70,000
Goodwill	34,229	35,848	40,937	40,937	40,937	40,937
Investments	22,191	25,443	89,177	89,052	89,903	90,814
Curr.Assets	425,296	506,995	711,679	799,685	879,441	986,487
Inventory	113,120	140,705	182,160	210,804	234,513	262,672
Sundry Debtors	71,912	65,257	82,368	94,862	105,531	118,203
Cash & Bank Bal.	87,433	114,096	182,381	186,249	188,127	210,842
Loans & Advances	152,807	178,422	249,952	291,952	333,952	375,952
Current Liab. & Prov.	417,208	491,378	626,116	753,626	850,111	952,188
Sundry Creditors	221,875	279,031	366,863	432,149	486,615	545,045
Other Liabilities	118,898	112,776	130,835	163,373	187,611	210,138
Net Current Assets	8,088	15,616	85,564	46,059	29,330	34,299
Appl. of Funds	447,660	512,440	777,803	856,963	968,247	1,089,589

E: MOSL Estimates

Ratios (Consolidated)

Y/E March	2010	2011	2012	2013E	2014E	2015E
Basic (INR)						
EPS	5.3	28.4	39.6	32.2	40.5	43.2
EPS Fully Diluted	4.5	27.3	37.8	31.7	40.0	43.2
Normalized EPS ^	-4.3	15.4	22.2	12.7	18.5	20.8
EPS Growth (%)	-79.9	-461.6	43.8	-42.7	45.4	12.3
Cash EPS	18.9	43.0	57.3	52.7	64.2	70.0
Book Value (Rs/Share)	28.8	60.1	103.0	131.9	166.5	203.2
DPS	1.2	4.0	4.0	4.5	5.0	5.0
Payout (Incl. Div. Tax) %	65.9	16.2	11.8	16.4	14.4	13.5
Valuation (x)						
Consolidated P/E			8.6	10.3	8.2	7.6
Normalized P/E			14.7	25.7	17.6	15.7
EV/EBITDA			5.2	4.7	4.1	3.7
EV/Sales			0.7	0.6	0.6	0.5
Price to Book Value			3.2	2.5	2.0	1.6
Dividend Yield (%)			1.2	1.4	1.5	1.5
Profitability Ratios (%)						
RoE	18.3	47.3	38.4	24.4	24.3	21.2
RoCE	10.7	26.5	24.1	23.9	24.2	23.1
Turnover Ratios						
Debtors (Days)	28	20	18	18	18	18
Inventory (Days)	45	42	40	40	40	40
Asset Turnover (x)	2.1	2.4	2.1	2.2	2.2	2.2
Leverage Ratio						
Debt/Equity (x)	4.3	1.6	1.4	1.0	0.8	0.6

Cash Flow Statement (Consolidated)**(INR Million)**

Y/E March	2010	2011	2012	2013E	2014E	2015E
OP/(Loss) before Tax	25,711	92,736	135,165	102,374	132,818	143,536
Int/Div. Received	2,786	4,115	5,376	8,473	9,061	8,724
Depreciation	38,826	46,510	56,209	67,503	77,703	89,280
Direct Taxes Paid	-12,292	-13,912	-17,679	-48,495	-55,882	-61,301
(Inc)/Dec in WC	26,009	-40,484	-22,801	43,372	18,607	17,746
Other Items	17,647	29,639	24,401	882	735	877
Extra-ordinary Items	-2,631	-7,773	8,549	-4,506	0	0
CF after EO Items	96,055	110,830	189,219	169,603	183,042	198,862
(Inc)/Dec in FA+CWIP	-84,532	-81,128	-137,829	-186,293	-204,865	-204,742
(Pur)/Sale of Invest.	6,416	4,158	-72,976	126	-852	-911
CF from Inv Activity	-78,116	-76,970	-210,804	-186,167	-205,717	-205,653
Issue of Shares	15,889	32,550	1,386	20,322	0	5,433
Inc/(Dec) in Debt	41,279	-11,677	113,054	-27,151	-3,084	-9,057
Interest Paid	-28,553	-24,691	-33,737	-32,627	-28,865	-27,873
Dividends Paid	-3,496	-10,195	-15,031	-17,266	-19,185	-19,447
CF from Fin Activity	25,119	-14,013	65,672	-56,723	-51,134	-50,945
Inc/(Dec) in Cash	43,058	19,848	44,087	-73,287	-73,808	-57,736
Add: Beginning Bal.	22,241	67,920	104,244	148,330	75,043	1,235
Closing Balance	65,300	87,768	148,330	75,043	1,235	-56,500

E: MOSL Estimates

NOTES

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