

Tata Motors Ltd (DVR) ₹ 170**Get more Note . . . If you do not wish to Vote Buy**

Dec 07, 2012

Company Background

Tata Motors Ltd is an Indian multinational automobile company based in Mumbai, India. It is a part of the Tata Group & is India's largest automobile company. Established in 195, under the helm of legendary JRD Tata, it was formerly known as TELCO (TATA Engineering and Locomotive Company). Tata Motors manufactures a wide range of products which include passenger cars, trucks, vans and coaches. The company is engaged in the development, designing, manufacturing, assembling and sale of vehicles, including financing. Today, Tata Motors is South Asia's largest automobile company; it is the leader in commercial vehicles and among the top three in passenger vehicles. Worldwide it is the world's fourth-largest truck manufacturer and second-largest bus manufacturer.

Key Highlights

- ➔ JLR has entered into a 50:50 JV with Chery Auto of China to develop, manufacture and sell in China certain JLR vehicles, and at least one own-branded model. The term of the JV is 30 years. JLR's equity contribution would be GBP375m for a 50% share. Including Chery's equity contribution and 1:1 debt: equity ratio, the overall project cost would be GBP1.5b. JLR remains on track as regards sales in China. Tata Motors currently has ~100 dealers & plans to take the number up to 130 by year-end. New launches are expected to boost growth as the Premium segment continues to grow better in China.
- ➔ In the Indian Business Q4 is traditionally a strong quarter comprising 30% of annual volumes. Managements expects to see some improvement in demand in this Q4. Further LCVs continue to register healthy demand growth with no major threat to margins over the near to medium term.
- ➔ Consolidated net automotive debt stood at INR116b (v/s INR162b in 2QFY12). The company hopes to be a zero debt company in next 2 years, despite the investment program.
- ➔ The Tata Motor DVR is nothing but a share of the Company except that it is Devoid of Voting Rights. However as an incentive the DVR Holder will get slight higher dividend. Globally DVRs trade at a 10 to 20% Discount on the original Share Price, here the DVR is trading at nearly a 50% discount.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	375,902.1	475,023.4	548,497.7
Rev. growth (%)	37.70	26.37	15.47
EBITDA (INR mn)	55,936.3	34,415.4	26,348.5
Net profit (INR mn)	22,400.8	18,118.2	12,437.1
Shares outstanding (mn)	570.6	634.6	3,173.6
EPS (INR)	39.3	28.6	3.9
EPS growth (%)	98.52	(27.28)	(86.27)
P/E (x)	3.8	8.7	70.3
RONW (%)	16.4	10.4	6.3
ROCE (%)	7.8	5.4	3.5

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Info Codes

Reuters	: TAMO.BO
Bloomberg	: TTMT@IN
NSE	: TATAMTRDVR
BSE	: 570001

Market Data

52 Wk Range (₹)	: 190 / 84
Shares in Issue (mn)	: 3173.6
Mkt. Cap (₹ bn)	: 763.00
BSE 2 Wk Avg Vol	: 512000

Share Holding Pattern (%)

Promoters	: 34.74
DII's	: 11.91
FII's	: 28.47
Others	: 24.88

Investment Theme

TML is the largest Indian auto company belonging to Tata group. It's strong & vast product portfolio has helped to cater wide range of customer from HCV, to small passenger cars. In the last few years it has made a few bold acquisitions, which appear to agur well for it. Especially JLR is on the right strategic path and is investing in the right areas, resulting in its evolution to a much stronger and balanced player in the luxury vehicle market. Talking about the Indian market though the passenger vehicle business appears to drag on stand-alone business performance. The CV business, which contributes ~35% to fair value, is expected to witness recovery in FY14. We believe the company is well planned to sustain its growth trajectory and would continue to generate good growth even in the sluggish economic scenario.

The Beast goes to China !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	381618.7	510050.7	33.65	591991.7	16.07
Other Income	22284.4	6079.0	(72.72)	6543.2	7.64
Change in Stocks	6066.3	3542.2	(41.61)	6238.4	76.12
Raw Material Con.	208445.1	276839.2	32.81	346478.4	25.16
Employee Exp.	18361.3	22940.2	24.94	26914.5	17.32
Indirect Taxes	28122.1	41393.3	47.19	50377.5	21.70
Other Exp.	99104.6	144083.8	45.39	154654.4	7.34
Operating Exp.	347966.8	481714.3	38.44	572186.4	18.78
Operating Profit	33651.9	28336.4	(15.80)	19805.3	(30.11)
Total Interest	21970.5	15368.7	(30.05)	17308.5	12.62
Gross Profit	33965.8	19046.7	(43.92)	9040.0	(52.54)
Net Dep.	5670.4	(2918.5)	(151.47)	(4385.1)	50.25
Total Taxation	5894.6	3847.0	(34.74)	988.0	(74.32)
Net Profit/Loss	22400.8	18118.2	(19.12)	12437.1	(31.36)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 08	Mar 09	Mar 10	Mar 11
SOURCES OF FUNDS	255,347.6	315,353.8	346,273.0	306,138.9
Equity Share capital	5,140.5	5,706.0	6,346.5	6,347.5
Share Application Money	0.0	0.0	30.6	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	118,551.5	143,702.4	193,514.0	189,675.1
Secured Loans	52,516.5	77,426.0	77,085.2	69,157.7
Unsecured Loans	79,139.1	88,519.4	69,296.7	40,958.6
USES OF FUNDS	255,347.6	315,353.8	346,273.0	306,138.9
Gross Block	137,535.5	182,506.6	215,866.8	247,202.9
Less : Revaluation Reserves	250.7	246.3	241.9	237.5
Less : Accumulated Depreciation	61,144.4	70,518.6	81,759.3	97,063.9
Net Block	76,140.4	111,741.7	133,865.6	149,901.5
Capital Work in Progress	69,468.9	52,321.5	37,990.3	40,366.7
Investments	129,681.3	223,369.0	226,242.1	204,935.5
Current Assets	107,124.8	125,594.5	151,771.2	161,470.2
Less : Current Liabilities	127,088.0	197,672.9	203,596.2	250,535.0
Total Net Current Assets	(19,963.2)	(72,078.4)	(51,825.0)	(89,064.8)
Misc. Expenses not written	20.2	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	123,579.1	214,709.8	221,901.5	201,400.6
Mkt Val. Quoted Investments	5,583.2	8,655.5	4,641.8	2,995.4
Contingent Liabilities	177,381.7	40,526.7	190,840.8	154,136.2
Dividend (%)	60	150	200	200

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	133,379.00	163,907.20	105,864.10	124,814.30
Cost Of Sales	125,694.00	149,846.70	100,475.50	119,077.10
Operating Profit	7,685.00	14,060.50	5,388.60	5,737.20
Recurring Income	250.10	1,342.90	4,470.70	14,393.10
Adjusted PBDIT	7,935.10	15,403.40	9,859.30	20,130.30
Financial Expenses	1,860.30	3,248.60	3,192.30	3,667.70
Depreciation	4,212.70	4,334.20	4,293.60	4,471.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1,862.10	7,820.60	2,373.40	11,991.10
Tax Charges	125.40	868.00	320.00	1,570.00
Adjusted PAT	1,736.70	6,952.60	2,053.40	10,421.10
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	1,300.00	0.00	1,750.00
Net Profit	1,736.70	5,652.60	2,053.40	8,671.10

52 Week Index Relative Percentage Appreciation



Tata Motors vs SENSEX vs Auto

Risks Associated

The company in the past few years have made some aggressive investments in the small passenger car segment which can slow down growth. Capacity for the passenger car business (250,000 for Nano and 300,000 for other cars) remains under-utilized. The company is facing capacity constraints in the UV segment, which has 75,000 units capacity. Capacity utilization of the Nano plant (Sanand) remain well below the break-even levels of 60-65%. The global economy has been in the uncertainty zone for some time now. Both European as well as American economies are struggling to get a foothold. This has already eroded investors confidence. The consumer's are also showing lesser buying interest. Tata Motors, which has great deal of exposure to developed markets could face particularly unpleasant situation, if the economic recovery fails to get momentum. Capex guidance for JLR stands at GBP2b and for India business at INR30b for FY13. For India business, if there is no recovery, there is a possibility of deferring capex. Diesel deregulation the most talked about matter in the automobile industry will hamper sales as Tata Motors has its edge in Diesel Vehicles. To sum up Intensifying competition and higher-than-expected loss in market share in the CV segment for the standalone business. Any significant change in international trade policies, impacting sales at JLR. Any major roadblock in new launches for JLR or milder-than-expected volume response. Above-expected raw material cost or adverse currency movement impacting margins.

In a Nutshell

Tata Motors, part of the Tata group, looks after the automobile business. It was established in 1945 & has diversified in the last 6 decades. The company is the largest automobile company in India. Its product portfolio covers a wide range of products from LCV to personal cars. It caters to a range of consumers as well such as small cheap cars to middle class, luxury segments, commercial and also defence segment. The company has both marketing as well manufacturing facilities in number of countries. It has in the previous decade acquired a number of major automobile companies. They have not only helped increase revenue manifold but have also added some of the major automobile brands in world. The current scenario in the Indian Automobile segment is not well with the slowing down of economy, talks on Diesel deregulation and rise in costs the scenario does not fully promote growth. Realising this fact early Tata Motors has made some bold decisions in the recent past. One of them is the introduction and the manufacture of the Nano by carving a niche among the small passenger car segment. While the other is acquisition of the JLR a brand in the high end Luxury car segment. Though both of the decisions have not yet shown their effect one can sense the growth they can bring along. While we do not expect any short-term benefits from this stock, in the longer term, it may turn out to be a positive decision to buy it.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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