

Tata Motors Ltd.

₹ 176

Roaring Jaguar !!!**Accumulate****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. In 2010, Tata Motors won 'India's most valuable brand' in an annual survey conducted by Brand Finance and The Economic Times.

Financial Performance

Tata Motors (TML) reported mixed quarterly numbers for the quarter ended on September 2011 as the domestic business dragged while JLR clocked strong volumes and a good margin performance. On a standalone basis, total Income for Tata Motors was higher by 13.0% YoY and 9.1% QoQ to ₹13 bn. Volume grew by 3.5% YoY to 190,430 units which was mainly led by 31.7% YoY growth in LCV segment. The Indica series saw 4% YoY growth due to the launch of the high mileage Ev-2 product, which has received a strong market response. TML's Indigo and Nano series were the worst performers, with volumes dropping by 67% and 21% YoY respectively restricting the volume growth.

Tata Motor's EBITDA margin contracted by 280 bps YoY to 6.7% due to increase in raw material cost by 296 bps YoY. Maharashtra government withdrew Value Added Tax (VAT) incentives, which further dropped the margins. Other expenses rose by 142 bps & were higher due to higher marketing spends & higher discounts due to intense competition on Passenger Vehicle segment. Nano and Passenger vehicle brand Indigo contributed less to volumes, and thus indirectly helped ease margin contraction. Consequently, the weak operating performance and MTM loss of ₹ 2.94 bn led Net profit fell by 76.4% YoY to ₹ 1.02 bn.

On a consolidated basis, Tata Motor's sales were up by 26% yoy to ₹ 35.94 bn in Q2 FY12, led by strong sales as well as operating performance of the JLR business. JLR volumes grew by 23.3% YoY to 68000 units. For Q2FY12, Tata Motors consolidated net profit declined by 15.5% yoy to ₹ 18.77 bn on account of MTM loss of ₹ 4.39 bn on foreign currency loans.

Investment Rationale**➔ Excellent Product Portfolio**

Tata Motors were initially in the business of manufacturing of Commercial vehicles. Over the years the company has not only diversified in the segments. In the last decade the company has acquired many key brands in the automobile industry worldwide such as - Jaguar Land Rover (JLR), Daewoo's



Gateway to Prosperity

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Info Codes

Reuters	TAMO.BO
Bloomberg	TTMT@IN
NSE	TATAMOTORS
BSE	500570

Market Data

52 Wk Range (₹)	: 274 / 138
Shares in Issue (bn)	: 2.66
Mkt. Cap (₹ bn)	: 463.60
BSE 2 Wk Avg Vol	: 2,294,000

Share Holding Pattern (%)

Promoters	: 35.05
DII's	: 15.08
FII's	: 22.24
Others	: 27.63

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 heavy commercial, to small passenger cars. In the last few years it has made a few bold acquisitions, this has not only opened new markets for the company but also added some of the best global auto brands. TML is trying to update its existing product portfolio with better & efficient engines. Recently its sales also shot up along with other industry peers. We believe that launch of fresh model in JLR coupled with ramp up in operations would help boost the global business. The changes in Nano & other products could change the domestic trend. We remain bullish on the stock. However, considering strong macro headwinds we advice to accumulate.

... and if you hate Voting its better get a DVR !!!

truck manufacturing unit, Hispano others. It offers a variety of products in each segment as well like passenger car & utility vehicles viz. Sumo, Vista, Venture, Safari, Aria. It also offers Heavy commercial vehicles, Buses, Military Vehicles. It also caters to geographically diversified markets as well. It has presence in all the continents & also manufacturing facilities as well. Such a strong diversification gives it protection against seasonal as well as any other fluctuations. This is evident from recent financial results as well. The dismal performance in Indian market was offset by better performance in Global markets like China.

➔ JLR reviving

Tata's second most famous acquisition after Corus was perhaps the acquisition of British auto major Jaguar & Land Rover. Though TML had initially run into adversities, they have managed to turn around successfully. Last month, it announced it is to take on more than 1,000 production staff. JLR's performance has been improving & it was its stellar performance that saved the day for Tata motors in Q2FY12. The management feels that JLR would continue to perform strongly. The new Evoque received a strong response in European market. It was awarded with "Import SUV of the Year" title for current year by CNBC TV18 Overdrive. It will be launched in other developing markets such as China after receiving The order book has crossed 20000 there. Ramping up of operations in UK & China, supported by launch of fresh models by Jaguar will help sales remain buoyant. It is also rumoured to have plans to launch a larger version of Evoque. Going forward we believe the company is reviving and would boost Tata Motor's Global & domestic sales.

➔ Nano looking for a turnaround

In January 2008, TML launched Tata Nano, the least expensive production car in the world. It was expected to deliver exceptional results owing to huge middle class population. However so far, the response has not been encouraging. TML has made certain changes which would help them see a turnaround in Nano business. It has launched a revamped Nano with complete with new interiors, a better power-providing engine and new colour selection. TML claims to return eight per cent better fuel efficiency figures, at 25.4 kmpl. It has kept the price of the vehicle unchanged. The Diesel version of Nano will be unveiled at the 2012 Delhi Motor Show in January. Diesel engine is expected to attract more customers due to price difference between the two fuels. The company has also planned to expand the reach of the small car to the interiors of the country to tap more underlying demand.

Key Financials

Year Ended 30 th	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	272982.1	375902.1	484543.6
Rev. growth (%)	(7.58)	37.70	28.90
EBITDA (₹ mn)	26562.6	48329.9	46081.1
Net profit (₹ mn)	10165.5	22400.8	18118.2
Shares outstanding (mn)	514.0	570.6	634.6
EPS (₹)	19.8	39.3	28.6
EPS growth (%)	(62.42)	98.52	(27.28)
P/E (x)	1.8	3.8	1.0
EV/ EBITDA	11.5	20.9	7.0
ROCE (%)	6.50	9.55	6.21

Auto sector changing

The Indian economy is currently plagued with various issues ranging from political uncertainty due to scandals, lower export, INR hitting lows after lows, higher interest rates, dismal infrastructure addition, & increasing current account deficit making government policies more and more conservative. Demand for cars in India, the world's second-fastest growing auto market after China, shrank in July for the first time in nearly three years, and monthly sales have fallen since then & only in November sales turned positive and jumped by 7%. But due to sluggish demand in previous few months, overall yearly growth may be miniscule. The rising fuel prices, especially of Petrol & higher interest rates have been the main culprits.

However, the long term scenario still remains unchanged. In spite of all the hurdles, the economy is still growing at much higher rate than world average. There has been a shift in mass mentality as far as automobiles are concerned. Cars which were considered as luxury and status symbol have almost become a necessity. Dropping difference between decent two Wheeler & affordable car, both in term of money as well as fuel efficiency has made the passenger car market quite lucrative. The safety & convenience make cars more attractive. This is supported by rising income levels & easier financing. The infrastructure though remains way below world standard is being improved. As the roads become more developed, the demand for cars is expected to drive further.

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 08	Mar 09	% Chg	Mar 10	% Chg
Total Sales + Excise	285132.8	381618.7	33.84	519533.7	36.14
Other Income	16624.6	22284.4	34.04	6116.2	(72.55)
Change in Stocks	(2380.4)	6066.3	(354.84)	3542.2	(41.61)
Raw Material Con.	165901.1	208445.1	25.64	276839.2	32.81
Employee Exp.	15513.9	18361.3	18.35	22940.2	24.94
Indirect Taxes	28937.5	28122.1	(2.82)	41385.1	47.16
Other Exp.	62461.9	106711.0	70.84	141946.5	33.02
Operating Exp.	275194.8	355573.2	29.21	479568.8	34.87
Operating Profit	9938.0	26045.5	162.08	39964.9	53.44
Total Interest	7566.4	9935.4	31.31	10649.5	7.19
Gross Profit	18996.2	38394.5	102.12	35431.6	(7.72)
Net Dep.	8705.7	10099.1	16.01	13466.4	33.34
Total Taxation	125.0	5894.6	4615.68	3847.0	(34.74)
Net Profit/Loss	10165.5	22400.8	120.36	18118.2	(19.12)

4 Years Balance Sheet

(₹ mn)

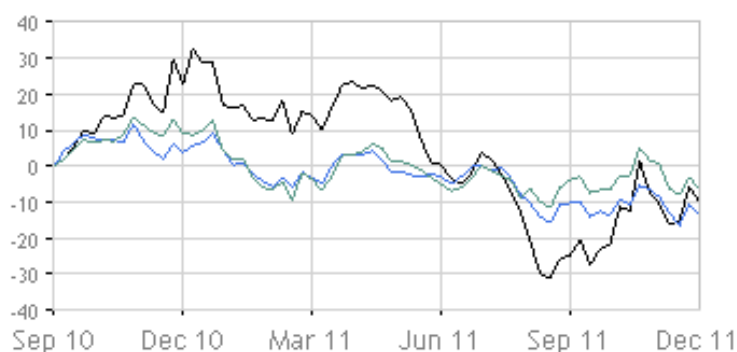
Balance Sheet as on 30 th	Mar 07	Mar 08	Mar 09	Mar 10
SOURCES OF FUNDS	140945.1	255347.6	315353.8	358878.6
Equity Share capital	3855.4	5140.5	5706.0	6346.5
Share Application Money	0.0	0.0	0.0	30.6
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	74284.5	118551.5	143702.4	193514.0
Loan Funds	24619.9	52516.5	77426.0	77660.5
Unsecured Loans	38185.3	79139.1	88519.4	81327.0
USES OF FUNDS	140945.1	255347.6	315353.8	358878.6
Gross Block	106900.7	137597.1	182557.5	215930.0
Less : Revaluation Reserves	255.1	250.7	246.3	241.9
Less : Accumulated Depreciation	53027.6	61144.4	70518.6	81759.3
Net Block	53618.0	76202.0	111792.6	133928.8
Capital Work in Progress	50649.6	69468.9	52321.5	40585.6
Investments	49102.7	129681.3	223369.0	226242.1
Current Assets	107577.0	106851.4	124598.0	147756.1
Less : Current Liabilities	120062.7	126876.2	196727.3	189634.0
Total Net Current Assets	(12485.7)	(20024.8)	(72129.3)	(41877.9)
Misc. Expenses not written	60.5	20.2	0.0	0.0
NOTE				
Bk Val Unquoted Investments	33515.3	123579.1	214709.8	221892.2
Mkt Val. Quoted Investments	33213.4	5583.2	8655.5	4641.6
Contingent Liabilities	57857.5	177381.7	40526.7	46785.2
Dividend (%)	150	60	150	200

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 09	Dec 09	Mar 10	Jun 10
Net Sales	115195.50	146005.80	118978.90	129538.00
Cost Of Sales	103817.80	134085.10	109313.00	123750.70
Operating Profit	11377.70	11920.70	9665.90	5787.30
Recurring Income	54.10	310.30	1179.60	567.80
Adjusted PBDIT	11431.80	12231.00	10845.50	6355.10
Financial Expenses	2749.20	2479.00	2531.50	2121.00
Depreciation	3370.70	3846.90	3651.40	3869.10
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	5311.90	5905.10	4662.60	365.00
Tax Charges	1211.30	171.70	649.80	0.00
Adjusted PAT	4100.60	5733.40	4012.80	365.00
Non Recurring Items	0.00	0.00	0.00	655.20
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	4100.60	5733.40	4012.80	1020.20

52 Week Index Relative Percentage Appreciation



Tata Motors vs SENSEX vs Auto

Risks Associated

➔ Domestic Business Performance

The domestic business performance of the company has been quite dismal. The company has had many issues to face with. Higher interest rates are affecting sales adversely. The rising costs of petrol has affected the sales of petrol vehicles. The depreciating INR has been enlarging the import bills of the country. If diesel deregulation takes place, overall the automobile industry may face hurdles there.

➔ Global meltdown

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.

➔ Ambitious acquisitions

Tata Motor's two decisions, first to produce nano & second -its acquisition has put huge pressure in balance sheet. With depreciating INR, its debt in foreign currency is becoming a matter of concern. This coupled with hedging losses are in billions eroding the profits.

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 ambitious project of the company - Tata Nano - the cheapest car in the world had run into many hurdles failing to give desired performance. However company has now revamped its petrol version & is expected to launch diesel version in next month. With more sales points, Nano sales are expected to rise further. Its JLR is going above average business & its performance will be boosted by launch of new model in China as well as Ramping up of operations. We remain bullish on the company and recommend to accumulate 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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